



Financial Statements  
and Supplemental  
Information  
as of June 30, 2015  
and 2014  
Together with  
Auditor's Report

EASTERN MICHIGAN UNIVERSITY

June 30, 2015

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**Eastern Michigan University**

**Contents**

June 30, 2015 and 2014

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	<b>Page</b>
<b>Independent Auditor's Report</b> .....	1
<b>Management's Discussion and Analysis - University</b> .....	4
<b>Financial Statements</b>	
University Statement of Net Position .....	15
Foundation Consolidated Balance Sheet .....	16
University Statement of Revenues, Expenses, and Changes in Net Position.....	17
Foundation Consolidated Statement of Activities and Changes in Net Assets .....	18
University Statement of Cash Flows .....	19
Foundation Consolidated Statement of Cash Flows .....	21
Notes to the Financial Statements .....	22
University Required Supplemental Information .....	48
University Notes to Required Supplemental Information .....	49
<b>Other Supplemental Information</b>	
University Schedule of Net Position by Fund, As of June 30, 2015 .....	51
University Schedule of Revenues, Expenses, and Changes in Net Position by Fund, for the year ended June 30, 2015 .....	53
University Schedule of Net Position by Fund, As of June 30, 2014 .....	55
University Schedule of Revenues, Expenses, and Changes in Net Position by Fund, for the year ended June 30, 2014 .....	57
University Notes to Supplemental Schedules .....	59

## 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, 2015 and 2014 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.

To the Board of Regents  
Eastern Michigan University

### ***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, 2015 and 2014 and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the University adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement No. 27. In accordance with GASB Statement No. 68, the University is now recognizing its unfunded pension benefit obligation as a liability on the statement of net position for the first time. This statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). 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 pension funding progress, and schedule of contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eastern Michigan University's basic financial statements. The schedule of net position by fund and revenues, expenses, and changes in net position by fund as of and for the years ended June 30, 2015 and 2014 are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

To the Board of Regents  
Eastern Michigan University

The schedule of net position by fund and schedule of revenues, expenses, and changes in net position by fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of net position by fund and schedule of revenues, expenses, and changes in net position by fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015 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* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 21, 2015

# 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, 2015, 2014, and 2013. 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 include three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These statements were prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 61). These criteria include significant operational or financial relationships. Based on the application of the criteria, the University has 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.

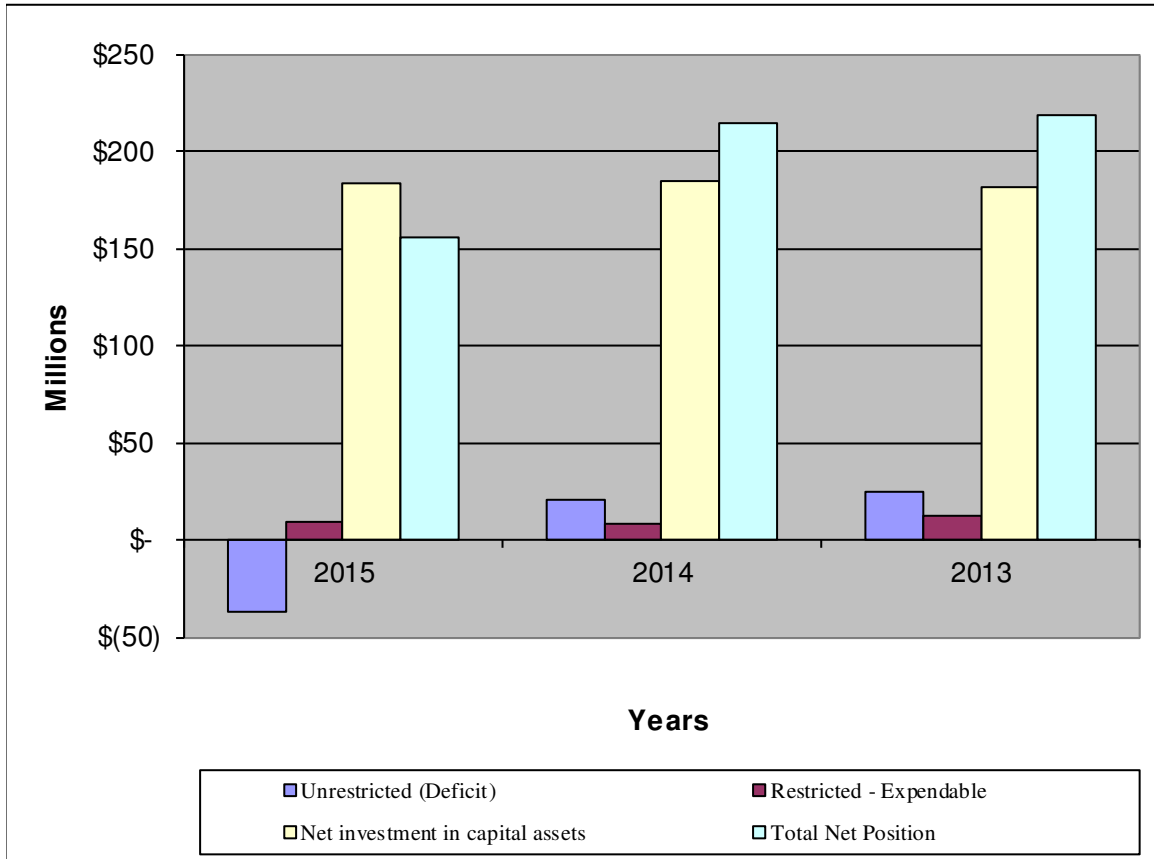
Founded in historic Ypsilanti in 1849, the University occupies 880 acres on the main campus with 122 buildings. In addition, there are convenient off-campus locations in Detroit, Jackson, Livonia, Monroe, and Traverse City for a student body of over 23,000 students.

### **Financial Highlights**

The University's financial position remained strong at June 30, 2015, with assets and deferred outflows of \$580 million, and liabilities and deferred inflows of \$424 million. The University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in 2015. Statement No. 68 requires governments participating in a multi-employer defined benefit pension plan to recognize their proportionate share of the unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. In accordance with the statement, the University has reported a Net Pension Liability of \$49.7 million as a change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2014.

**EASTERN MICHIGAN UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2015, 2014, and 2013.



The pensionable liability of \$50.9 million at June 30, 2015 results in the University having a deficit in unrestricted net position of \$37.2 million. The difference of \$13.7 million is committed for identified future needs including contractual obligations, debt service, student loans, capital outlay, insurance reserves, future retirement costs, and academic programming needs.



**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, 2015, 2014, and 2013:

<b>Net Position as of June 30 (In millions)</b>	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>Assets</b>			
Current assets	\$ 53.0	\$ 44.3	\$ 49.2
Noncurrent assets:			
Capital assets - Net of depreciation	459.3	463.1	465.1
Other	<u>62.2</u>	<u>57.4</u>	<u>68.5</u>
Total assets	\$ <u>574.5</u>	\$ <u>564.8</u>	\$ <u>582.8</u>
<b>Deferred Outflows</b>			
Deferred Outflows	\$ <u>7.4</u>	\$ <u>0.0</u>	\$ <u>0.0</u>
<b>Liabilities</b>			
Current liabilities	\$ 56.3	\$ 49.8	\$ 53.5
Noncurrent liabilities	<u>351.7</u>	<u>287.0</u>	<u>292.5</u>
Total liabilities	\$ <u>408.1</u>	\$ <u>336.8</u>	\$ <u>346.0</u>
<b>Deferred Inflows</b>			
Deferred Inflows	\$ <u>17.7</u>	\$ <u>13.4</u>	\$ <u>17.7</u>
<b>Net Position</b>			
Net Investment in capital assets	183.6	184.8	181.7
Restricted	9.7	8.9	12.7
Unrestricted (Deficit)	<u>(37.1)</u>	<u>20.9</u>	<u>24.7</u>
Total net position	\$ <u>156.2</u>	\$ <u>214.6</u>	\$ <u>219.1</u>

# EASTERN MICHIGAN UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Results for the Years Ended June 30 (in Millions):

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>			
Tuition and fees - Net	\$ 169.0	\$ 170.1	\$ 168.5
Grants and contracts	12.1	10.7	11.6
Auxiliary activities - Net	38.7	39.3	37.7
Other	10.9	9.4	9.4
Total operating revenues	230.7	229.5	227.2
<b>Operating Expenses</b>			
Instruction	121.0	120.2	120.0
Research	3.1	4.1	4.0
Public service	11.5	11.9	11.3
Academic support	33.4	31.6	31.7
Student services	29.9	28.1	26.8
Institutional support	30.4	30.1	30.3
Operations and maintenance of plant	28.6	27.6	26.4
Scholarships and fellowships	37.4	37.2	35.4
Auxiliary activities - Net	32.5	31.5	28.4
Depreciation	15.3	15.7	16.5
Other expenditures	1.4	1.0	0.3
Total operating expenses	344.4	339.0	331.1
Net Operating Loss	<b>(113.7)</b>	<b>(109.5)</b>	<b>(103.9)</b>
<b>Nonoperating Revenues (Expenses)</b>			
State appropriations	72.6	67.6	66.5
Gifts	4.5	4.3	4.5
Pell grants	32.9	34.3	34.4
Other nonoperating revenue (expenses)	(5.6)	(2.2)	(5.0)
Net Nonoperating Revenues	<b>104.4</b>	<b>104.0</b>	<b>100.4</b>
<b>Capital Contributions</b>			
Capital gifts	0.6	0.9	0.1
Total capital contributions	<b>0.6</b>	<b>0.9</b>	<b>0.1</b>
Decrease in Net Position	<b>(8.6)</b>	<b>(4.5)</b>	<b>(3.4)</b>
Net Position - Beginning of year	214.6	219.1	222.5
Adjustment for change in accounting principle (Note 8)	(49.7)	0.0	0.0
Net Position - Beginning of year as restated	164.8	219.1	222.5
Net Position - End of year	\$ <b>156.2</b>	\$ <b>214.6</b>	\$ <b>219.1</b>

**EASTERN MICHIGAN UNIVERSITY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

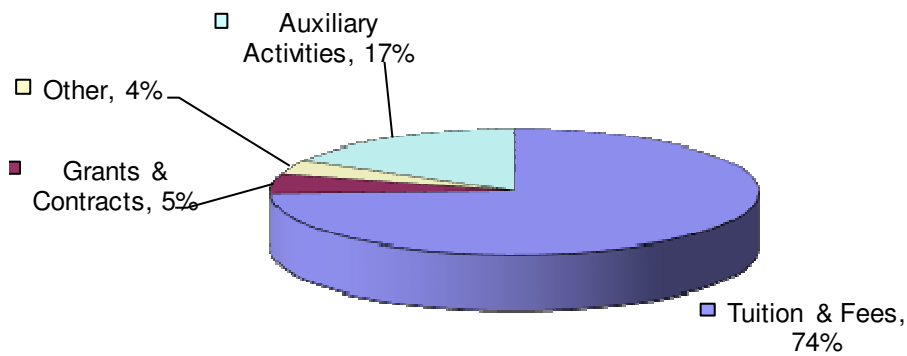
**Operating Revenues**

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 as a result of a Board of Regents approved tuition and mandatory fee weighted average increase of 3.75 percent effective Fall 2014, offset by additional scholarships.

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

**Operating Revenues by Source**



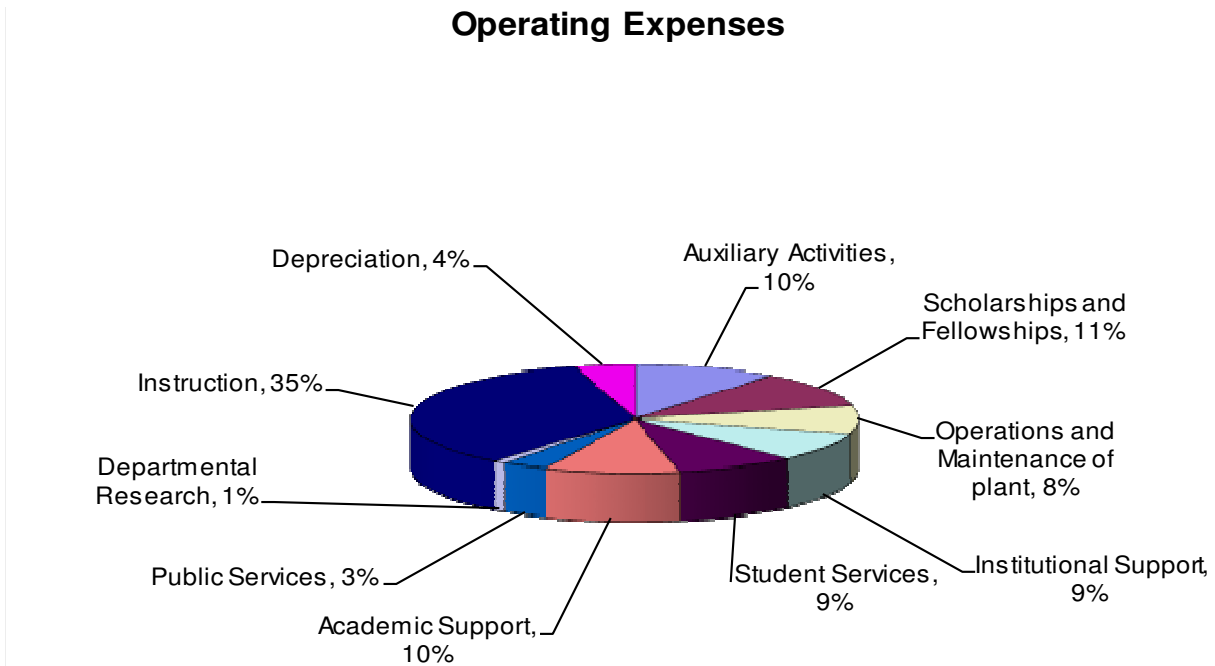
**EASTERN MICHIGAN UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Operating Expenses**

Operating expenses are all costs necessary to perform and conduct the programs and primary purposes of the University. Operating expenses were up modestly, reflecting increases in the costs of compensation, utilities, student financial aid, library acquisitions, academic programming, and depreciation.

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:



**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:

# EASTERN MICHIGAN UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- State operating appropriations increased \$5.0 million in 2015 to \$72.6 million and \$1.1 million in 2014 to \$67.6 million due to the State's economy.
- In 2013, due to the reassignment of interest rate swaps to the refinanced debt, all but one of the derivative instruments are deemed effective hedging transactions. In 2015 and 2014 interest expense was reduced by \$2.6 million and \$2.6 million, respectively, due to the amortization of the liability related to the interest swaps.
- Investment income decreased by \$2.9 million to \$1.5 million in 2015 and increased \$0.2 million to \$4.3 million in 2014 due to market conditions and the reassignment of interest rate swaps to the refinanced debt.
- Pell grants decreased \$1.4 million to \$32.9 million in 2015 and \$0.1 million to \$34.3 million in 2014

### 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 gifts amounted to \$0.6 million in 2015, \$0.9 million in 2014, and \$0.1 million in 2013.

### 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
- Its ability to meet obligations as they come due
- Its needs for external financing

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Cash Provided by (Used in):</b>			
Operating activities	\$ (100.6)	\$ (91.9)	\$ (92.7)
Noncapital financing activities	110.5	107.3	100.7
Capital and related financing activities	(3.6)	(25.5)	(25.5)
Investing activities	(2.2)	9.6	20.9
<b>Net Increase (Decrease) in Cash</b>	4.1	(0.5)	3.4
<b>Cash - Beginning of year</b>	11.1	11.6	8.2
<b>Cash - End of year</b>	<u>\$ 15.2</u>	<u>\$ 11.1</u>	<u>\$ 11.6</u>

# EASTERN MICHIGAN UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Cash and Investments

Cash and investments, collectively, increased by \$13.7 million to \$59.6 million as of June 30, 2015 primarily due to unspent bond proceeds for capital projects.

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants, and contracts. Net cash used in operating activities was \$100.6 million. To offset this, the net cash provided from non-capital financing activities, which consisted primarily of State appropriations, was \$110.5 million. This is compared to net cash used in operating activities in the amount of \$91.9 million and \$92.7 million for the years ended June 30, 2014 and 2013, respectively. Net cash provided by non-capital financing activities was \$107.3 million and \$100.7 million for the years ended June 30, 2014 and 2013, respectively.

Cash used by capital and related financing activities amounted to \$3.6 million in 2015, \$25.5 million in 2014, and \$25.5 million in 2013, primarily on capital additions.

### Capital Assets

At June 30, 2015, the University had \$459.3 million invested in capital assets, net of accumulated depreciation of \$329.4 million. Depreciation charges totaled \$15.4 million for 2015 compared to \$15.7 million in 2014. In 2015, the University completed the McKenny Transfer Center, Fletcher audio and visual improvements, and other projects to improve classrooms, residence halls, technology infrastructure, building energy efficiency, and security. Capital projects in progress at June 30, 2015 primarily include improvements to Rackham, the Sculpture Studio, additional Information Technology infrastructure replacements, renovations in auxiliary units, and improvements to classrooms.

At June 30, 2014, the University had \$463.1 million invested in capital assets, net of accumulated depreciation of \$315.0 million. Depreciation charges totaled \$15.7 million for 2014 compared to \$16.5 million in 2013. In 2014, the University continued the Rackham renovation and completed the Best Hall renovation, Halle ventilation system, and other projects to improve classrooms, residence halls, technology infrastructure, building energy efficiency, and security. Capital projects in progress at June 30, 2014 primarily include improvements to the Fletcher building, additional Information Technology infrastructure replacements, renovations in auxiliary units, and improvements to classrooms.

### Debt and Derivatives

On June 25, 2015, the University issued \$155,000,000 of Term Loan and Total Return Swap. 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 for new capital projects. In addition, the University received a premium payment of \$3,569,650 which will also be used for new capital projects. The \$158.57 million Total Return Swap is used to hedge the variable rate on the term loan.

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

## EASTERN MICHIGAN UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2015, the University had \$254.3 million in obligations outstanding, versus \$237.4 million in 2014 and \$239.7 million in 2013. The remaining debt instruments are general revenue obligations of the University. Principal payments of \$2.5 million, \$2.3 million and \$2.7 million were made in 2015, 2014 and 2013, respectively.

Included in the outstanding obligations are three interest rate swap agreements with notional amounts of \$125.8 million as of June 30, 2015, 2014 and 2013, respectively. In 2015 the swaps were transferred to the Series 2015 Term Loan and Total Return Swap. This created a fourth swap of \$158.6 million that is wrapped around the original 3 swaps. Under GASB Statement Number 53, this created a synthetic termination event for the old swap agreements. The new term loan allows the swaps to be reconsidered for hedge accounting, and they were all but one deemed to be effective hybrid instruments as of June 30, 2015. All the swaps were deemed to be effective hybrid instruments as of June 30, 2014. As a result, the University has posted a \$9.5 million fair value asset, a current liability of \$5.4 million, a noncurrent liability of \$34.6 million, a deferred inflow of \$12.8 million and a deferred outflow of \$2.3 million as of June 30, 2015. The University posted a \$13.5 million fair value asset, a current liability of \$2.6 million, a noncurrent liability of \$38.3 million, and a deferred inflow of \$13.5 million as of June 30, 2014. The University posted a \$17.7 million fair value asset, a current liability of \$2.7 million, a noncurrent liability of \$41.0 million, and a deferred inflow of \$17.7 million as of June 30, 2013.

The terms of the swap agreements 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. No collateral was required to be posted as of June 30, 2015, 2014 and 2013, respectively.

For the University's \$125,795,000 of enhanced variable rate debt refinanced in 2009, the credit ratings assigned by Moody's Investor Services (Aaa/VMIG-1) were unchanged in 2015 from 2014 and 2013. Standard and Poor's ratings (AAA/A-1) were unchanged in 2015 from 2014 and 2013. For the University's \$102,380,000 of fixed rate debt, separate ratings were assigned by each agency for the insured portion of the debt and the uninsured portion. Moody's ratings were Aa2 (insured) and A1 (uninsured); Standard and Poor's ratings were AAA/A-1 (insured) and BBB+ (uninsured). The highest achievable ratings are "Aaa" and "AAA", respectively. The University's capacity to meet its financial obligations is considered to be strong by the rating agency and reflects limited additional borrowing capacity as of June 30, 2015.

#### **Pension Obligations**

In 2015 The University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. In accordance with the statements, the University has reported a Net Pension Liability of \$49.7 million as a change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2014. The balance of the net pension liability at June 30, 2015 is \$50.9 million.

# EASTERN MICHIGAN UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Deferred Inflows and Outflows

The University had \$17.7 million, \$13.5 million, and \$17.7 million deferred inflows from interest rate swaps and pension obligations at June 30, 2015, 2014, and 2013, respectively. As of June 30, 2015, 2014, and 2013 the University had \$7.4 million, \$0, and \$0 deferred outflows from interest rate swaps and pension obligations, respectively.

### Funding for a Successful Future

Eastern Michigan University's vision is to be a premier public university recognized for student-centered learning, high quality academic programs, and community impact. The University'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 23,000 students.

Through diligent efforts at fiscal stewardship and strategic cost containment measures, The University has been able to set a standard for tuition restraint in the state of Michigan, while still continuing to invest in facilities and programs that help EMU students succeed in today's economy.

In June, the University Board of Regents approved a tuition and mandatory fee increase of 7.8 percent for the upcoming academic year. With the increase, the University 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 Regents also approved a \$311.7 million general fund operating expenditure budget for fiscal year 2016. The budget reflects a \$4.7 million increase in University-sponsored financial aid over the previous year. Over the last eight years, the University's financial aid has risen by about 127 percent, from \$21.4 million in 2007-08 to more than \$48.5 million in 2015-16.

The University has operated in a fiscally sound, responsible and sustainable manner, with a strong emphasis on effective budget stewardship and resource allocation tied to growth and declines in targeted program areas. For example, as more students pursue degrees in the fields of health and human services, the University's investment in those areas has increased in terms of faculty and facilities. The budget reflects funding for the new Physician Assistant Program, launched in May 2014.

The Regents also approved an \$8.9 million capital budget for 2015-2016 that includes significant investment for supporting health-related programs, the Honors College and student housing renovations. The budget reflects the University's continued emphasis on improving academic and student-related facilities, in upgrading classroom technology, and in continued enhancements in campus safety and security, with those areas accounting for more than 80 percent of the capital budget.

The FY16 capital plan includes more than \$2.8 million for funding of upgrades in academic facilities. Those improvements total nearly \$1.8 million for continuing renovations in the historic Rackham Building, which houses the Physician Assistant Program along with other health and human services programs such as Orthotics and Prosthetics.

Also included in the capital plan is slightly more than \$1 million to fund new space for growth of the Honors College, which has doubled in enrollment since 2011. This past year, the University admitted its largest honors freshman class ever, at about 500 students.



## **EASTERN MICHIGAN UNIVERSITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Planned capital expenses will also continue the University's extensive safety enhancements, which now include more than 700 cameras around campus. The University's recent \$220 million, five-year capital plan included the completion of Phase II of the \$90-million, self-funded Science Complex in fall 2012, the largest project in the University's history.

These improvements have resulted in significant enrollment gains. Last fall, the University enrolled the third largest freshman class in the University's history after registering its largest incoming freshman class the previous year.

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**  
**As of June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents - unrestricted (Note 2)	\$ 15,173,472	\$ 11,132,692
Accounts receivable - net (Note 3)	18,556,589	17,170,134
Appropriation receivable	13,049,292	12,231,895
Inventories	1,129,627	846,878
Deposits and prepaid expenses	5,098,991	2,898,892
Accrued interest receivable	8,524	51,068
Total current assets	53,016,495	44,331,559
Noncurrent assets:		
Student loans receivable - net (Note 3)	8,334,823	9,130,355
Long-term investments - unrestricted (Note 2)	24,572,873	34,657,807
Long-term investments - restricted (Note 2)	19,826,258	146,198
Capital assets - net (Note 4)	459,264,603	463,116,285
Fair value of derivative instruments (Note 5)	9,464,255	13,459,796
Total noncurrent assets	521,462,812	520,510,441
Total assets	\$ 574,479,307	\$ 564,842,000
<b>DEFERRED OUTFLOWS</b>		
Deferred outflows (Note 5 and Note 8)	\$ 7,448,613	\$ -
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 2,575,000	\$ 2,475,000
Current portion of interest rate swaps (Note 5)	5,415,413	2,613,852
Accounts payable and accrued liabilities	20,639,056	18,283,292
Accrued payroll, taxes, and fringe benefits	17,584,069	16,753,101
Unearned fees and deposits	7,321,560	6,607,022
Insurance and other claims payable (Note 7)	2,811,550	3,085,308
Total current liabilities	56,346,648	49,817,575
Noncurrent liabilities:		
Accrued compensated absences (Note 6)	2,030,882	2,184,791
Long-term debt (Note 5)	251,765,000	234,875,000
Interest rate swaps and other obligations (Note 5)	34,641,730	38,349,864
Net other postemployment benefit obligations (Note 6)	2,712,000	1,808,000
Pension obligation (Note 8)	50,881,674	-
Federal perkins	9,679,931	9,797,441
Total noncurrent liabilities	351,711,217	287,015,096
Total liabilities	\$ 408,057,865	\$ 336,832,671
<b>DEFERRED INFLOWS</b>		
Deferred inflows (Note 5 and Note 8)	\$ 17,692,445	\$ 13,459,796
<b>NET POSITION</b>		
Net Investment in capital assets	\$ 183,629,033	\$ 184,802,569
Restricted—University development and Perkins loans	9,672,091	8,857,859
Unrestricted	(37,123,514)	20,889,105
Total net position	\$ 156,177,610	\$ 214,549,533

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY FOUNDATION**  
**BALANCE SHEET**  
**As of June 30, 2015 and 2014**

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents (Note 2)	\$ 223,323	\$ 2,499,275
Investments (Note 1)	65,552,180	64,717,494
Accrued interest and dividends	-	44,708
Contributions receivable (Note 3)	1,572,556	518,525
Life insurance cash surrender value	317,851	309,321
Accounts receivable	9,838	10,226
Property and equipment - Net	1,837,662	1,929,459
Investments held under split-interest agreements (Note 1)	<u>810,259</u>	<u>889,230</u>
Total assets	<u>\$ 70,323,669</u>	<u>\$ 70,918,238</u>
 <b>LIABILITIES</b>		
Accounts payable	\$ 347,111	\$ 529,611
Liabilities under split-interest agreements	523,591	578,310
Accrued liabilities	<u>4,474</u>	<u>8,081</u>
Total liabilities	<u>\$ 875,176</u>	<u>\$ 1,116,002</u>
 <b>NET ASSETS</b>		
Unrestricted	\$ 1,807,542	\$ 1,694,090
Temporarily restricted	23,516,374	25,977,944
Permanently restricted	<u>44,124,577</u>	<u>42,130,202</u>
Total net assets	<u>\$ 69,448,493</u>	<u>\$ 69,802,236</u>
Total liabilities and net assets	<u>\$ 70,323,669</u>	<u>\$ 70,918,238</u>

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**For the years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 216,158,135	\$ 215,269,428
Scholarship allowances	(47,174,332)	(45,178,526)
Net student tuition and fees	168,983,803	170,090,902
Federal grants and contracts	6,636,031	4,961,094
Federal financial aid	1,928,098	1,669,516
State grants and contracts	1,229,272	946,409
State financial aid	1,171,949	839,455
Nongovernmental grants and contracts	1,113,078	2,278,973
Departmental activities	7,990,327	6,429,400
Auxiliary activities revenue - Net (Note 1)	38,660,605	39,333,298
Other	2,941,866	2,990,129
Total operating revenues	<u>230,655,029</u>	<u>229,539,176</u>
<b>OPERATING EXPENSES</b>		
Instruction	120,960,576	120,226,674
Research	3,136,736	4,062,082
Public service	11,483,662	11,931,201
Academic support	33,420,692	31,609,081
Student services	29,853,881	28,067,145
Institutional support	30,350,864	30,117,844
Scholarships and fellowships	37,448,468	37,160,945
Operation and maintenance of plant	28,603,095	27,563,433
Auxiliary activities expenses - Net (Note 1)	32,500,389	31,557,291
Depreciation	15,253,178	15,712,871
Other	1,298,762	1,043,526
Total operating expenses	<u>344,310,303</u>	<u>339,052,093</u>
Operating loss	<u>(113,655,274)</u>	<u>(109,512,917)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	72,620,994	67,595,296
Gifts	4,536,034	4,335,387
Investment Income	1,469,285	4,332,990
Interest expense	(9,307,584)	(9,619,090)
Interest ARRA subsidy	1,733,254	1,731,362
Federal Pell grant program	32,938,433	34,311,524
Other	455,931	1,350,689
Net nonoperating revenues	<u>104,446,347</u>	<u>104,038,158</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Capital gifts	564,757	925,334
Total capital contributions	<u>564,757</u>	<u>925,334</u>
Decrease in net position	(8,644,170)	(4,549,425)
<b>NET POSITION - Beginning of year</b>	214,549,533	219,098,958
Adjustment for Change in Accounting Principle (Note 8)	(49,727,753)	-
<b>NET POSITION - Beginning of year As Restated</b>	164,821,780	219,098,958
<b>NET POSITION - End of year</b>	<u>\$ 156,177,610</u>	<u>\$ 214,549,533</u>

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**AND CHANGES IN NET ASSETS**  
**Years ended June 30, 2015 and 2014**

	2015	2014
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>		
Contributions	\$ 5,808,505	\$ 5,360,736
Investment income	606,724	1,034,204
Net realized and unrealized gains (losses)	(33,366)	9,346,624
Administrative and management fee	1,593,000	1,793,000
Other revenue	71,198	83,018
Total revenue, gains and other support	8,046,061	17,617,582
<b>EXPENSES</b>		
Contributions to EMU:		
Expendable contributions	\$ 3,949,877	\$ 3,153,635
Contributions from endowment income	1,570,703	1,410,696
General and administrative - Foundation management	438,762	572,622
Fundraising	2,613,959	2,895,202
Total expenses	\$ 8,573,301	\$ 8,032,155
<b>Increase in Net Assets Before Other Changes in Net Assets</b>	(527,240)	9,585,427
<b>OTHER CHANGES IN NET ASSETS</b>		
Funds transferred from EMU	135,618	321,826
Change in value of split-interest agreements	37,879	(51,944)
<b>(Decrease) Increase in Net Assets</b>	(353,743)	9,855,309
<b>NET ASSETS - Beginning of year</b>	69,802,236	59,946,927
<b>NET ASSETS - End of year</b>	\$ 69,448,493	\$ 69,802,236

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**For the years ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from students for tuition and fees	\$ 216,500,449	\$ 216,403,761
Cash received from auxiliary activities	45,942,820	46,562,479
Cash received from other sources	8,218,970	9,302,762
Grants and contracts	11,522,023	10,945,846
Student loans granted - Net of repayments	(14,071)	1,061,224
Scholarship allowances	(54,563,298)	(51,829,005)
Cash paid to suppliers and employees	(243,610,808)	(241,958,136)
Cash paid for financial aid	(84,607,169)	(82,339,471)
Net cash used in operating activities	(100,611,084)	(91,850,540)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from State appropriations	71,803,597	67,448,228
Federal Pell grants	32,938,434	34,311,524
Gifts received from EMU Foundation	5,728,697	5,516,105
Net cash provided by noncapital financing activities	110,470,728	107,275,857
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of term loan	164,860,000	-
Principal payments/defeasance under debt obligations	(147,870,000)	(2,330,000)
Interest paid	(9,307,584)	(9,619,090)
Proceeds from sale of building	-	1,096,810
Purchases of capital assets	(11,262,699)	(14,625,221)
Net cash used in capital and related financing activities	(3,580,283)	(25,477,501)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(70,758,646)	(74,041,967)
Proceeds from sales and maturities of investments	67,800,000	79,335,482
Interest received	720,065	4,328,162
Net cash (used in) provided by investing activities	(2,238,581)	9,621,677
Net increase (decrease) in cash and cash equivalents	4,040,780	(430,507)
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>11,132,692</b>	<b>11,563,199</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 15,173,472</b>	<b>\$ 11,132,692</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS</b>		
Disposal of fixed assets, net of depreciation	\$ 308,144	\$ 871,819
Capital gifts received in kind	\$ 564,757	\$ 925,334

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**For the years ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (113,655,274)	\$ (109,512,917)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	15,383,497	15,712,871
Changes in assets and liabilities:		
Accounts receivable - Net	(923,116)	4,320,830
Inventories	(282,749)	316,417
Deposits and prepaid expenses	(2,477,620)	352,259
Student loans receivable - Net	795,532	1,100,302
Accounts payable and accrued liabilities	2,355,769	(2,416,324)
Accrued payroll	2,186,933	1,817,049
Payroll taxes and accrued fringe benefits	(4,248,557)	(2,020,580)
Unearned fees and deposits	714,538	(964,050)
Insurance and other claims payable	(306,128)	(292,196)
Accrued compensated absences	(153,909)	(264,201)
Total change in assets and liabilities	(2,339,307)	1,949,506
Net cash used in operating activities	\$ (100,611,084)	\$ (91,850,540)

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**Years ended June 30, 2015 and 2014**

	2015	2014
<b>Cash Flows from Operating Activities</b>		
(Decrease) Increase in net assets	\$ (353,743)	\$ 9,855,309
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	93,495	95,471
Net realized and unrealized loss (gain) on investments	33,366	(9,346,624)
Change in value of split-interest agreements	(37,879)	51,944
Change in cash surrender value of life insurance	(8,530)	(14,421)
Contributions restricted for long-term purposes	(1,994,375)	(1,154,876)
Contribution received - land held for investment		
Changes in assets and liabilities:		
Contributions receivable	(1,054,031)	(9,045)
Accrued interest and dividends	-	1,942
Other assets	45,096	541
Accounts payable	(182,500)	180,526
Accrued and other liabilities	(3,607)	3,607
Net cash used in operating activities	\$ (3,462,708)	\$ (335,626)
<b>Cash Flows from Investing Activities</b>		
Purchases of equipment	\$ (1,698)	\$ (64,134)
Purchases of investments	(66,566,617)	(21,062,273)
Proceeds from the sale of investments	65,777,536	21,799,691
Net cash used in investing activities	\$ (790,779)	\$ 673,284
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(78,173)	(70,275)
Proceeds from new split-interest agreements	61,333	59,081
Proceeds from contributions restricted for long-term purposes	1,994,375	1,154,876
Net cash provided by financing activities	\$ 1,977,535	\$ 1,143,682
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(2,275,952)	1,481,340
<b>Cash and Cash Equivalents - Beginning of year</b>	2,499,275	1,017,935
<b>Cash and Cash Equivalents - End of year</b>	\$ <b>223,323</b>	\$ <b>2,499,275</b>
<b>Supplemental Cash Flow Information - Cash paid for:</b>		
Interest	\$ 105,299	\$ 108,042

The accompanying notes are an integral part of this statement.



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Basis of Presentation and Significant Accounting Policies

**Organization** - 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 has implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting research bulletins of the American Institute of Certified Public Accountants (AICPA), Committee or Accounting Procedure.

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.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

**Component Units 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. Total net assets for the Foundation were \$69,448,493, \$69,802,236, and \$59,946,927 for the years ended June 30, 2015, 2014 and 2013, respectively. 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 near the campus of the University.

### 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, food, pharmaceuticals, and bookstore items, 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. Certain net assets have been designated to provide for significant repair and maintenance costs to residence facilities. Physical properties, with the exception of land, are depreciated on the straight-line method over the estimated useful service lives of the respective assets. Estimated service lives are as follows:

Land Improvements	12 to 60 years
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. Retirement benefit costs are funded as accrued.

**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

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

using the effective interest method. Amortization for the years ended June 30, 2015 and 2014 was \$2,623,665 and \$2,688,527, 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. In 2013 the University modified the sick leave and short-term disability policy to eliminate sick leave accruals and retirement payouts for certain employees. In addition, the revised policy established a new short-term disability plan to provide income protection for certain employees unable to work for an extended period because of non-work-related illness or period of incapacity. The current portions of accrued sick leave and vacation leave were approximately \$400,000 and \$3,819,000 as of June 30, 2015, respectively. The current portions of accrued sick leave and vacation leave were approximately \$400,000 and \$3,575,000 as of June 30, 2014, respectively.

**Deferred Outflows** – Deferred outflows consist of accumulated changes in the fair value of hedging derivative instrument and pension obligations.

**Deferred Inflows** – Deferred inflows consist of accumulated changes in the fair value of hedging derivative instrument and pension obligations.

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

**Adoption of New Standard** – The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the University has reported a Net Pension Liability of \$49.7 million as a change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2014. This amount was based on the University's proportionate share of the net pension liability as of September 30, 2013 reduced by \$3.4 million of required contributions made after the end of the plan year, but before July 1, 2014.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

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

**Auxiliary Activities** - Auxiliary activities consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<u>Operating Revenues:</u>		
Auxiliary Activities, Gross	\$ 46,514,668	\$ 46,368,394
Less: Internal Sales	(465,097)	(384,617)
Less: Scholarship Allowances	<u>(7,388,966)</u>	<u>(6,650,479)</u>
Auxiliary Activities Revenue - Net	<u>\$ 38,660,605</u>	<u>\$ 39,333,298</u>
 <u>Operating Expenses:</u>		
Auxiliary Activities, Gross	\$ 40,354,452	\$ 38,592,387
Less: Internal Sales	(465,097)	(384,617)
Less: Scholarship Allowances	<u>(7,388,966)</u>	<u>(6,650,479)</u>
Auxiliary Activities Expenses - Net	<u>\$ 32,500,389</u>	<u>\$ 31,557,291</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 at the discretion of the University's department within the guidelines of donor restrictions, if any. Federal Pell grant revenue is also classified as nonoperating. The amounts received for 2015 and 2014 are \$32.9 million and \$34.3 million, respectively.

### Note 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 of Regents, 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 principle 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.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

Cash and investments consisted of the following as of June 30, 2015:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years
<b>Cash and cash equivalents:</b>				
Unrestricted:				
Time deposits	\$ 11,906,022	\$ 11,906,022	\$ -	\$ -
Money market funds	3,267,450	3,267,450	-	-
<b>Total unrestricted cash and cash equivalents</b>	<b>\$ 15,173,472</b>	<b>\$ 15,173,472</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Long-term investments:</b>				
Unrestricted:				
Corporate bond mutual fund	\$ 8,355,746	\$ -	\$ 8,355,746	\$ -
Government bonds	84,247	-	-	84,247
Domestic equities	6,930,640	-	6,930,640	-
Foreign equities	4,159,516	-	4,159,516	-
Commingled Funds	2,982,626	-	2,982,626	-
Hedge Funds	2,060,098	-	2,060,098	-
<b>Total long-term unrestricted investments</b>	<b>\$ 24,572,873</b>	<b>\$ -</b>	<b>\$ 24,488,626</b>	<b>\$ 84,247</b>
Restricted:				
Certificates of deposit	\$ -	\$ -	\$ -	\$ -
Money Market Funds	19,826,258	19,826,258	-	-
Government bonds	-	-	-	-
<b>Total long-term restricted investments</b>	<b>\$ 19,826,258</b>	<b>\$ 19,826,258</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total cash and investments</b>	<b>\$ 59,572,603</b>	<b>\$ 34,999,730</b>	<b>\$ 24,488,626</b>	<b>\$ 84,247</b>

Cash and investments consisted of the following as of June 30, 2014:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years
<b>Cash and cash equivalents:</b>				
Unrestricted:				
Time deposits	\$ 10,339,916	\$ 10,339,916	\$ -	\$ -
Money market funds	792,776	792,776	-	-
<b>Total unrestricted cash and cash equivalents</b>	<b>\$ 11,132,692</b>	<b>\$ 11,132,692</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Long-term investments:</b>				
Unrestricted:				
Corporate bond mutual fund	\$ 23,890,303	\$ -	\$ 23,890,303	\$ -
Government bonds	80,353	-	-	80,353
Domestic equities	8,965,393	-	-	8,965,393
Foreign equities	1,721,758	-	-	1,721,758
<b>Total long-term unrestricted investments</b>	<b>\$ 34,657,807</b>	<b>\$ -</b>	<b>\$ 23,890,303</b>	<b>\$ 10,767,504</b>
Restricted:				
Certificates of deposit	\$ -	\$ -	\$ -	\$ -
Time deposits	146,198	146,198	-	-
Government bonds	-	-	-	-
<b>Total long-term restricted investments</b>	<b>\$ 146,198</b>	<b>\$ 146,198</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total cash and investments</b>	<b>\$ 45,936,697</b>	<b>\$ 11,278,890</b>	<b>\$ 23,890,303</b>	<b>\$ 10,767,504</b>

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

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

<u>Asset Class</u>	<u>Target %</u>	<u>Permissible Range %</u>
<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 Debit	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 minimal.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

**Credit Risk** - Investment policies for cash and investments as set forth by the Board of Regents 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, 2015 and 2014, the University’s debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2015		2014	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
<b>Bond Mutual Funds:</b>				
Corporate Bonds	\$ 8,355,746	A	\$ 23,890,303	AA
U.S. Government Agency Bonds	84,247	--	80,353	--
<b>Total</b>	\$ 8,439,993		\$ 23,970,656	

The nationally recognized statistical rating organizations (NRSRO) utilized were Moody’s Investors Services or Morningstar. The corporate bonds NRSRO rating is based on a weighted average of the individual investment ratings.

**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, 2015 and 2014. As of June 30, 2015, the banks reported balances in the disbursement accounts at \$13,629,240. Of these balances, \$314,962 was covered by federal depository insurance and \$13,314,278 was uninsured and uncollateralized. As of June 30, 2014, the banks reported balances in the disbursement accounts at \$11,797,055. Of these balances, \$318,714 was covered by federal depository insurance and \$11,478,341 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.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

The following investments comprise more than 5% of the total investments portfolio as of June 30, 2015 and 2014:

June 30, 2015

<u>Instrument</u>	<u>Fair Market Value</u>
Northern Institutional Government US Select	\$ 8,100,000
Vanguard Prime Money Market	7,130,769
Dreyfus Cash Management Institutional	7,119,086
Baird Aggregate Bond Fund Institutional	3,194,070
Total	\$ 25,543,925

June 30, 2014:

<u>Instrument</u>	<u>Fair Market Value</u>
JPMorgan Core Bond Select	\$ 3,434,397
PIMCO Total Return Bond Fund	13,824,257
Loomis Sales Bond Fund Instl	3,668,867
Vanguard Small Cap Index-Signal	1,779,874
Vanguard Inst Index VINIX	7,185,518
Total	\$ 29,892,913

**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, 2015 and 2014, the University had \$4,159,515 and \$1,721,759, 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, 2015 and 2014.

Investments at the Eastern Michigan University Foundation are as follows:

	<b>2015</b>	<b>2014</b>
Corporate stocks	\$ 285,941	\$ 47,548,411
Corporate bonds	-	4,633,251
Treasury/Federal securities	424,242	4,339,294
Certificates of Deposit (Long Tern	600,896	597,533
Real estate	55,000	55,000
Land	612,334	612,334
Mutual funds	14,462,481	7,820,901
Commingled Funds - Equity	16,684,968	-
Commingled Funds - Fixed Income	10,095,587	-
Commingled Funds - Balanced	13,691,201	-
Hedge Funds	9,449,789	-
Total	\$ 66,362,439	\$ 65,606,724



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

Net gains/losses from security transactions for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Unrealized gain	\$ 452,837	\$ 4,839,837
Realized income	120,521	5,540,991
Total	\$ 573,358	\$ 10,380,828

Trustee and brokerage fees associated with the maintenance of the endowment securities portfolio were \$358,693 and \$455,247 for the years ended June 30, 2015 and 2014, respectively, for Eastern Michigan University Foundation. For recording purposes, these fees have been netted with investment income.

### Note 3 - Receivables

University accounts receivable consist of the following as of June 30, 2015 and 2014:

	2015	2014
Sponsor accounts	\$ 3,535,978	\$ 2,934,623
Student accounts	5,330,441	6,059,396
Charter school appropriation	4,258,686	4,406,885
Third party tuition	862,049	328,345
Other	5,810,628	4,897,043
Subtotal	19,797,782	18,626,292
Less allowances for possible collection losses	(1,241,193)	(1,456,158)
Accounts receivable - Net	\$ 18,556,589	\$ 17,170,134

In addition, the University has student loans receivable of \$8,334,823 and \$9,130,355, net of the related allowance of \$358,666 for both June 30, 2015 and 2014.

Included in contributions receivable for the Foundation are the following unconditional promises to give at June 30, 2015 and 2014:

	2015	2014
Contributions receivable:		
Gross contributions promised	\$ 2,052,556	\$ 1,019,093
Less allowance for uncollectibles	(474,347)	(497,575)
Subtotal	1,578,209	521,518
Less unamortized discount	(5,653)	(2,993)
Net unconditional promises to give	\$ 1,572,556	\$ 518,525
Amounts due in:		
Less than one year	\$ 1,786,596	\$ 701,563
One to five years	265,460	310,530
More than five years	500	7,000
Total	\$ 2,052,556	\$ 1,019,093

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 - Capital Assets

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2015:

	2014	Additions/ Transfers	Retirements/ Transfers	2015
<b>Non-depreciable:</b>				
Land	\$ 11,653,978	\$ -	\$ -	\$ 11,653,978
Construction in progress	2,073,363	6,867,030	(2,073,363)	6,867,030
Total non-depreciable	<u>13,727,341</u>	<u>6,867,030</u>	<u>(2,073,363)</u>	<u>18,521,008</u>
<b>Depreciable:</b>				
Infrastructure	40,782,809	1,372,882	(546,055)	41,609,636
Leasehold improvements	3,972,561	96,053	-	4,068,614
Buildings	591,194,565	2,478,844	(81,457)	593,591,952
Library holdings	48,225,494	555,085	-	48,780,579
Equipment	80,218,986	2,247,597	(389,079)	82,077,504
Total depreciable	<u>764,394,415</u>	<u>6,750,461</u>	<u>(1,016,591)</u>	<u>770,128,285</u>
Total capital assets	<u>778,121,756</u>	<u>13,617,491</u>	<u>(3,089,954)</u>	<u>788,649,293</u>
<b>Less: Accumulated depreciation:</b>				
Infrastructure	28,231,641	1,069,121	(245,725)	29,055,037
Leasehold improvements	3,492,981	87,354	-	3,580,335
Buildings	168,876,188	9,560,105	(171,738)	178,264,555
Library holdings	44,176,140	1,233,003	-	45,409,143
Equipment	70,228,521	3,433,914	(586,815)	73,075,620
Total accumulated depreciation	<u>315,005,471</u>	<u>15,383,497</u>	<u>(1,004,278)</u>	<u>329,384,690</u>
Capital assets - Net	<u>\$ 463,116,285</u>	<u>\$ (1,766,006)</u>	<u>\$ (2,085,676)</u>	<u>\$ 459,264,603</u>

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 - Capital Assets (continued)

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2014:

	2013	Additions/ Transfers	Retirements/ Transfers	2014
<b>Non-depreciable:</b>				
Land	\$ 11,653,978	\$ -	\$ -	\$ 11,653,978
Construction in progress	4,274,179	2,073,363	(4,274,179)	2,073,363
Total non-depreciable	<u>15,928,157</u>	<u>2,073,363</u>	<u>(4,274,179)</u>	<u>13,727,341</u>
<b>Depreciable:</b>				
Infrastructure	38,552,676	2,230,133	-	40,782,809
Leasehold improvements	3,547,565	424,996	-	3,972,561
Buildings	581,163,115	11,183,231	(1,151,781)	591,194,565
Library holdings	47,580,207	645,287	-	48,225,494
Equipment	81,081,240	2,342,390	(3,204,644)	80,218,986
Total depreciable	<u>751,924,803</u>	<u>16,826,037</u>	<u>(4,356,425)</u>	<u>764,394,415</u>
Total capital assets	<u>767,852,960</u>	<u>18,899,400</u>	<u>(8,630,604)</u>	<u>778,121,756</u>
<b>Less: Accumulated depreciation:</b>				
Infrastructure	27,207,693	1,023,948	-	28,231,641
Leasehold improvements	3,422,743	70,238	-	3,492,981
Buildings	159,722,455	9,486,311	(332,578)	168,876,188
Library holdings	42,815,986	1,360,154	-	44,176,140
Equipment	69,608,329	3,772,220	(3,152,028)	70,228,521
Total accumulated depreciation	<u>302,777,206</u>	<u>15,712,871</u>	<u>(3,484,606)</u>	<u>315,005,471</u>
Capital assets - Net	<u>\$ 465,075,754</u>	<u>\$ 3,186,529</u>	<u>\$ (5,145,998)</u>	<u>\$ 463,116,285</u>

In 2014 the University sold the Cooper Building for \$1,096,810. The book value of the building was \$819,203. The economic gain was \$277,607. In 2014 the University retired \$2,512,814 of notebook computers that were purchased between 1999 and 2009 and capitalized when the equipment threshold was \$1,000. The associated accumulated depreciation was \$2,511,814. Currently the equipment capitalization threshold is \$5,000.

The University has encumbrances of \$5,217,961 on various construction projects in progress as of June 30, 2015. 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-Harrod 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.

**EASTERN MICHIGAN UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 5 - Long-term Debt**

Long-term debt consists of the following as of June 30, 2015 and 2014:

	Interest Rates	Maturity	2014	Outstanding Principal		2015	Current Portion
				Additions	Retirements/ Defeasance		
Term Loan							
of 2015	5.00%	2021-2049	\$ -	\$ 155,000,000	\$ -	\$ 155,000,000	\$ -
Refunding Bonds							
of 2014	2.00 - 4.00%	2016-2029	-	9,860,000	-	9,860,000	15,000
Refunding Bonds							
of 2012B	variable	2037-2049	60,795,000	-	60,795,000	-	-
Refunding Bonds							
of 2012A	variable	2038-2049	75,000,000	-	75,000,000	-	-
Build America							
Bonds of 2009D	5.33 - 7.21%	2016-2038	78,395,000	-	12,075,000	66,320,000	2,560,000
General Revenue							
Bonds of 2009C	4.00 - 5.00%	2022-2027	23,160,000	-	-	23,160,000	-
			237,350,000	\$ 164,860,000	\$ 147,870,000	254,340,000	\$ 2,575,000
Less current portion long-term debt			2,475,000			2,575,000	
Long-term debt			<u>\$ 234,875,000</u>			<u>\$ 251,765,000</u>	

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 - Long-term Debt (continued)

Long-term debt consists of the following as of June 30, 2014 and 2013:

	Interest Rates	Maturity	2013	Outstanding Principal		2014	Current Portion
				Additions	Retirements/ Defeasance		
Refunding Bonds of 2012B	variable	2037-2049	\$ 60,795,000	\$ -	\$ -	\$ 60,795,000	\$ -
Refunding Bonds of 2012A	variable	2038-2049	75,000,000	-	-	75,000,000	-
Build America Bonds of 2009D	4.21 - 7.21	2014-2038	79,220,000	-	825,000	78,395,000	2,475,000
General Revenue Bonds of 2009C	4.00 - 5.00	2022-2027	23,160,000	-	-	23,160,000	-
Refunding Bonds of 2003A	2.00 - 5.00	2014	1,040,000	-	1,040,000	-	-
General Revenue Bonds of 2002A	5.8	2014	465,000	-	465,000	-	-
			239,680,000	\$ -	\$ 2,330,000	237,350,000	\$ 2,475,000
Less current portion long-term debt			2,330,000			2,475,000	
Long-term debt			<u>\$ 237,350,000</u>			<u>\$ 234,875,000</u>	

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 which will be used for new capital projects. The 2015 Term Loan amortizes over 34 years with principal payments beginning June 30, 2016. The refunding resulted in a reduction of total interest payments of \$838,483 and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$31,009.

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. The refunding resulted in a reduction of total interest payments of \$5.9 million and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$549,265.

On November 30, 2012, the University issued \$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 20012B. These bonds refunded \$125,795,000 General Revenue Variable Rate Demand Refunding Bonds, Series 2009A&B, redeemed \$1,685,000 Series 2000 Bonds, redeemed \$250,000 Series 2002B Bonds, and provided \$7,885,500 for capital projects. 2012 Series A&B bonds

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 - Long-term Debt (continued)

amortize over 37 years with principal payments beginning June 30, 2038 and June 30, 2037, respectively. The refunding resulted in a reduction of total interest payments of \$53.9 million and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$3,119,479.

On June 10, 2009, the University issued \$102,380,000 of General Revenue Bonds, Series 2009C and 2009D, to fund capital projects. Series 2009C for \$23,160,000 are tax-exempt bonds. Series 2009D for \$79,220,000 are taxable issuer Build America Bonds authorized by Section 1531 of the American Recovery and Reinvestment Act of 2009. The University will receive payments from the Federal Treasury equal to 32.5% of the total coupon interest paid by the University.

As bonds are defeased, certain funds that will be paid to bondholders are deposited in trust and distributions are made by the trustee accordingly. The trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in the financial statements of the University. At June 30, 2015 and 2014, the aggregate amount of outstanding principal on all bonds which have been defeased is \$0 and \$0, respectively.

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.

### Interest Rate Swaps:

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 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. In addition, on June 19, 2015, the University refinanced the 2009 single-mini swap that was used to replace, over time, the amortizing notional amounts of the 2001 and 2006 swaps.

The June 19, 2015 refinancing of the 2009 swap and the June 25, 2015 refunding of the debt associated with the original swaps created a synthetic termination event. Interest rate swaps are classified as hedging derivative instruments, if the hedging instruments meet the criteria outlined in GASB 53, paragraph 27a and b, or as investment derivative instruments if they do not meet the criteria. Based on regression analysis, all but one of the swap agreements have been determined to be effective hedging derivative instruments as of June 30, 2015 while all of the swap agreements were determined to be effective hedging derivative instruments as of June 30, 2014 and 2013.

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.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 - Long-term Debt (continued)

In accordance with GASB 53, these swaps are considered hybrid instruments consisting of a financing element (\$40,057,143 and \$40,963,716 for June 30, 2015 and 2014, respectively) and an embedded derivative (\$9,464,255 and \$13,459,796 for June 30, 2015 and 2014, 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 embedded 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 swap considered no longer effective is treated as an investment valued at cost. The deferred inflow or outflow at time determined ineffective is treated as a deferral that will be amortized over the remaining life of the original debt.

Due to the terms of the Total Return Swap that offset the original four swaps, the embedded derivative is further considered a hybrid instrument with a component considered at market and a component considered off market. The at market component is still considered recorded at fair value with an offsetting deferred inflow or outflow. The off market component is considered an investment recorded at cost with a deferral that will be amortized over the remaining life of the original debt. The requirements of the accounting standard result in a dual presentation which is further outlined below as of June 30, 2015:

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 / Standard & Poors)	Scheduled Termination Date	Inception date
Total Return Swap 2015	-	68% of LIBOR	5.000%	-	Barclays	A2/BBB	9/1/2020	6/25/2015
Series 2001	4.72%	-	-	68% of LIBOR	JPMorgan	Aa3/A+	6/1/2027	11/30/2012
Series 2001	4.72%	-	-	68% of LIBOR	JPMorgan	Aa3/A+	6/1/2027	7/27/2001
Series 2006	3.317%	-	-	62% of LIBOR + 20 basis points	Piper Jaffray	Baa2/A-	6/1/2036	1/23/2006
Series 2015 (formerly 2009)	3.141%	-	-	68% of LIBOR	Barclays	A2/BBB	3/1/2049	6/19/2015

Series	Outstanding Notional Amount		Fair Value		Deferred inflow		Deferred Outflow	
	Hedge	Investment	Hedge	Investment	Hedge	Investment	Hedge	Investment
Total Return Swap 2015	\$ 158,569,650	\$ -	\$ 7,583,676		\$ (7,583,676)			
Series 2001	4,924,000	9,246,000	(23,600)			(379,423)	23,600	285,552
Series 2001	7,386,000	13,869,000	(35,285)			(577,084)	35,285	439,631
Series 2006	-	74,540,000		2,084,636		(2,252,192)	-	-
Series 2015 (formerly 2009)	6,275,000	9,555,000	(145,172)			(2,008,252)	145,172	1,342,447
			\$ 7,379,619	\$ 2,084,636	\$ (7,583,676)	\$ (5,216,951)	\$ 204,057	\$ 2,067,630
Totals			\$ 9,464,255		\$ (12,800,627)		\$ 2,271,687	

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 - Long-term Debt (continued)

As of June 30 2014, the swap agreements can be summarized as follows:

At June 30, 2014:										<u>Counterparty credit rating</u>
Effective Date	Type	Objective	Notional Amount	Pay terms	Receive terms	Liability Amount	Fair Value and deferred inflows	Maturity date	Moody's	Standard & Poor's
8/29/2001	Pay-fixed, Receive variable	Cash flow hedge for Series 2001, refunded by 2012A&B bond series.	\$15,020,000	4.465%	40% - Variable 60% - 68% of LIBOR	\$3,622,808	\$602,148	6/1/2026	Aa3	A+
			\$22,530,000			\$5,845,014	\$915,871			
2/22/2006	Pay-fixed, Receive variable	Cash flow hedge for Series 2006, refunded by 2012A&B bond series.	\$77,385,000	3.317%	62% LIBOR + 20 bps	\$14,709,141	\$3,970,347	5/1/2036	Baa2	A-
6/2/2009	Pay-fixed, Receive variable	Cash flow hedge for Series 2009, refunded by 2012A&B bond series.	\$10,860,000	3.096%	68% LIBOR	<u>\$16,786,753</u>	<u>\$7,971,430</u>	3/1/2049	A2	A
Total						\$40,963,716	<u>\$13,459,796</u>			
Less Current Interest Rate Swaps						<u>2,613,852</u>				
Noncurrent Interest Rate Swaps						<u>\$38,349,864</u>				

The terms of the previous swap contracts called 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. No collateral was required to be posted as of June 30, 2014. Terms of the 2015 Total return swap do not have a counterparty collateral provision through September 30, 2015. On October 1, 2015 the 2015 Total return swap collateral provisions returned and the University posted \$11.5 million of collateral.

**Credit Risk** The University is exposed to credit risk on hedging derivative instruments that are in asset positions. The terms of the swap agreement require collateralization of the fair value of hedging derivative instruments in asset positions based on a scale that evaluates both the market value of the swap and the counterparty's credit rating. The University has never needed to access collateral from the counterparty. 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%. Additionally, this mitigates basis risk between the swap receiving leg and the variable rate resets of the 2012A and 2012B bonds. Since the 2001, 2006, and 2009 swap agreements receive a percentage of LIBOR from the counterparty and pay a percentage of LIBOR for the Series 2012A and 2012B bonds, basis risk is mitigated. As of June 30, 2015, the variable interest rate was 0.19%, whereas 68 percent of one-month LIBOR was 0.13%. As of June 30, 2015, 62 percent of one-month LIBOR plus 20 basis points was 0.33%.



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 - Long-term Debt (continued)

As of June 30, 2014, the variable interest rate was 0.11%, whereas 68 percent of one-month LIBOR was 0.10%. As of June 30, 2014, 62 percent of one-month LIBOR plus 20 basis points was 0.30%.

**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, 2015, debt service requirements of the variable rate debt associated with the 2001 swap agreement, 2006 swap agreement, and the 2009 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.

	<u>Principal</u>	<u>Interest</u>	<u>Swap Interest</u>	<u>Net Interest</u>	<u>Net Principal and Interest</u>
2016	\$ 2,575,000	\$ 4,788,115	\$ 4,474,022	\$ 9,262,137	\$ 11,837,137
2017	2,680,000	7,934,628	4,445,761	12,380,389	15,060,389
2018	2,795,000	7,811,721	4,416,116	12,227,837	15,022,837
2019	2,915,000	7,679,546	4,384,999	12,064,545	14,979,545
2020	3,045,000	7,536,090	4,352,328	11,888,418	14,933,418
2021 – 2025	20,655,000	35,299,127	21,210,123	56,509,250	77,164,250
2026 – 2030	27,165,000	30,953,545	20,266,298	51,219,843	78,384,843
2031 – 2035	36,075,000	22,319,622	20,149,296	42,468,918	78,543,918
2036 – 2040	46,660,000	10,314,616	19,494,528	29,809,144	76,469,144
2041 – 2045	56,335,000	5,133,734	13,361,806	18,495,540	74,830,540
2046 – 2049	53,440,000	1,465,166	4,255,436	5,720,602	59,160,602
Total	<u>\$ 254,340,000</u>	<u>\$ 141,235,910</u>	<u>\$ 120,810,713</u>	<u>\$ 262,046,623</u>	<u>\$ 516,386,623</u>

### Note 6 - 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 the Teachers Insurance and Annuities Association - College Retirement Equities Fund ("TIAA-CREF"). The MPERS plan is further discussed in Note 8.

#### **Defined Contribution Plan**

TIAA-CREF is a defined contribution retirement plan. 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 were 10.2% and 10.5% for the years ended June 30, 2015 and 2014, respectively. Total covered payroll was \$127,995,000 and \$125,158,000, for the years

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 6 - Retirement Benefits (continued)**

ended June 30, 2015 and 2014, respectively. The University contributed approximately \$13,012,000 and \$13,131,000 for the years ended June 30, 2015 and 2014, respectively. The University has no liability beyond its own contribution under the TIAA-CREF plan.

The University provides termination benefits upon retirement resulting from unused sick days. The University calculates its sick pay liability in accordance with the provisions of GASB Statement No.16, *Accounting for Compensated Absences*. In 2013 the University modified the sick leave and short-term disability policy to eliminate sick leave accruals and retirement payouts for certain employees. In addition, the revised policy established a new short-term disability plan to provide income protection for certain employees unable to work for an extended period because of non-work-related illness or period of incapacity. The liability is approximately \$2,432,000 and \$2,585,000 as of June 30, 2015 and 2014, respectively. Approximately \$400,000 is included in accrued payroll, taxes, and fringe benefits for the years ended June 30, 2015 and 2014. The remaining portion is included in accrued compensated absences.

### **Other Postemployment Benefits**

The University has a single-employer plan that provides certain healthcare (medical, dental, and prescription drug coverage) and life insurance benefits for retired faculty and staff. The plan covers 1,313 members as of July 1, 2012 for healthcare, 892 members for life insurance, and currently does not require active members to contribute to the plan.

**Plan Description** - 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 of 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.

**Funding Policy** - The plan requirements are established and may be amended by the University's management.

**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:

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Retirement Benefits (continued)

	2015	2014	2013
Annual required contribution	\$ 1,224,576	\$ 1,166,000	\$ 904,000
Interest on net OPEB obligation	-	-	-
Adjustment to the annual required contribution	-	-	-
Annual OPEB cost	1,224,576	1,166,000	904,000
Contributions made	(320,576)	(262,000)	(440,000)
Increase in net OPEB obligations	904,000	904,000	464,000
Net OPEB obligation - Beginning of year	1,808,000	904,000	440,000
Net OPEB obligation - End of year	\$ 2,712,000	\$ 1,808,000	\$ 904,000

**Funded Status and Funding Progress** - As of July 1, 2012, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$9,382,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,382,000. The covered payroll (annual payroll of active employees covered by the plan) was \$98,403,000 for 2012 and the ratio of all UAAL to covered payroll was 9.5 percent for 2012.

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.

In the July 1, 2012 actuarial valuation, the entry age actuarial method was used. The actuarial assumptions included a 6.5 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, 2015 was 27 years.

### Note 7 - 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

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 7 - Contingencies and Commitments (continued)

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.

Under current accounting standards, the University is required to estimate expected pollution remediation outlays, when specified obligating events occur, and to determine whether these outlays should be accrued for as a liability. As a result, the University has accrued an abatement liability for approximately \$19,000 and \$48,000 for the years ended June 30, 2015 and 2014, respectively.

Claims activity for the year ended June 30, 2015 is as follows:

	Liability - Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability - End of Year
Medical claims	\$ 1,284,326	\$ 24,189,292	\$ (24,355,798)	\$ 1,117,820
Property, General Liability, Errors & Omissions	1,509,300	93,690	(200,942)	1,402,048
Worker's Compensation, Unemployment Compensation and Other	291,682	590,978	(590,978)	291,682
Total	<u>3,085,308</u>	<u>24,873,960</u>	<u>(25,147,718)</u>	<u>2,811,550</u>

Claims activity for the year ended June 30, 2014 is as follows:

	Liability - Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability - End of Year
Medical claims	\$ 1,244,730	\$ 21,053,721	\$ (21,014,125)	\$ 1,284,326
Property, General Liability, Errors & Omissions	1,841,092	(257,318)	(74,474)	1,509,300
Worker's Compensation, Unemployment Compensation and Other	291,682	615,156	(615,156)	291,682
Total	<u>3,377,504</u>	<u>21,411,559</u>	<u>(21,703,755)</u>	<u>3,085,308</u>

### Note 8 – Michigan Public School Employees' Retirement System

**Plan Description** – The University participates in the Michigan Public School Employees' Retirement System (MPERS or 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: all hourly employees and some salary employees hired prior to January 1, 1996. Employees hired on or after January 1, 1996 cannot participate in MPERS, unless they previously were enrolled in the plan at the University, or one of the other six universities that are part of MPERS.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 8 – Michigan Public School Employees’ Retirement System (continued)

The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides post-employment health care 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 supplementary information for the pension and post-employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909. Separate pension information related to the University's employees included in this plan is not available.

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

The University’s contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. The University contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan’s actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The range of rates are as follows:

	Normal Pension Cost	Unfunded Portion
10/1/2014 – 06/30/2015	4.8%	17.72%
10/1/2013 – 09/30/2014	3.0%	16.61%
7/1/2013 – 9/30/2013	3.21%	13.41%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions. The University’s required and actual contributions to the plan for the years ended June 30, 2015 and 2014 were \$4,652,858 and \$4,218,394, respectively. Contributions include \$960,295 and \$319,866 revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2015 and 2014, respectively.

**Benefits Provided** – Benefit provisions of the defined benefit pension 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 (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service 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

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 8 – Michigan Public School Employees’ Retirement System (continued)

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 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.

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

**Net Pension Liability, Deferrals, and Pension Expense** – At June 30, 2015, the University reported a liability of \$50.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 reporting units, actuarially determined. At September 30, 2014, the University’s proportion was 13.56 percent of the universities reporting unit, which represents 1.67% of MPSERS in total.

For the year ended June 30, 2015 the University recognized total pension expense of \$5,521,656 which includes actual contributions plus amortization of beginning deferred inflows and outflows. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

**EASTERN MICHIGAN UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 8 – Michigan Public School Employees’ Retirement System (continued)**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of assumptions	\$ 1,515,870	\$ -
Net difference between projected and actual earnings on pension plan investments		(4,891,818)
Changes in proportion and differences between University contributions and proportionate share of contributions	7,766	
University contributions subsequent to the measurement date	3,653,290	-
<b>Total</b>	<b>\$ 5,176,926</b>	<b>\$ (4,891,818)</b>

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

<b>Year ended June 30</b>	<b>Amount</b>
2016	\$ 300,682
2017	(1,222,954)
2018	(1,222,954)
2019	(1,222,956)
<b>Total</b>	<b>\$ (3,368,182)</b>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2016).

**Subsequent Event** - On September 30, 2015, the University received approximately \$14.3 million from the plan for a plan error in requiring excess contributions. The refund reduced the plan’s net position and will impact the University’s net pension liability as of June 30, 2016.

**Actuarial Assumptions** – The total pension liability as of September 30, 2014 is based on the results of an actuarial valuation as of September 30, 2013 and rolled forward.

Actuarial cost method: Entry age normal cost actuarial cost method  
 Assumed rate of return: 8.00 percent, net of investment and administrative expenses based on the groups  
 Rate of pay increases: 3.50 percent  
 Mortality basis: RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 8 – Michigan Public School Employees’ Retirement System (continued)

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Discount Rate** – The discount rate used to measure the total pension liability was 8.00 percent. 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 employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension 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 pension 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:

<b>Investment Category</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic Equity Pools	30%	4.8%
Private Equity Pools	17%	8.5%
International Equity Pools	15%	6.1%
Fixed Income Pools	11%	1.5%
Real Estate & Infrastructure Pools	9%	5.3%
Real Return, Opportunistic, and Absolute Pools	11%	6.3%
Short Term Investment Pools	7%	-0.2%
<b>Total</b>	<b>100%</b>	

**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 of 8.00 percent, as well as what the University’s net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00 percent) or 1.00 percentage point higher (9.00 percent) than the current rate:



**EASTERN MICHIGAN UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 8 – Michigan Public School Employees’ Retirement System (continued)**

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
University’s proportionate share of the net pension liability	\$63,680,076	\$50,881,674	\$39,853,419

**Pension plan fiduciary net position** – Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPSERS financial report

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. The MPSERS Board of trustees annually sets the employer contribution rate to fund the benefits on a pay as you go basis. For the plan year beginning October 1, 2014, the university monthly contribution rate was 10.53% of both member and non-member payroll wages. Prior to October 1, 2014 the university contributions were based on actual retiree insurance coverage and corresponding premium subsidy. The University’s monthly contribution for retiree health care benefits aggregated to \$1,554,356, \$2,466,573, and \$2,776,698 during the years ending June 30, 2015, 2014, and 2013, respectively. Effective July 1, 2010 all active employees enrolled in MPSERS are required to contribute 3.0% of their pay toward retiree healthcare.

Under Public Act 300 of 2012, during the period February 1, 2013 through June 30, 2013 employees could elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the retiree healthcare benefit and becoming a participant in the Personal Health Care 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% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 403b account. The University’s required contributions into PHF accounts were \$8,801 and \$9,784 for the fiscal years ended June 30, 2015 and 2014, respectively

**Note 9 – Issued but not adopted accounting pronouncements**

The Governmental Accounting Standings Board (GASB) has issued the following Statements for future implementation:

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. The Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for periods beginning after June 15, 2015.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 9 – Issued but not adopted accounting pronouncements (continued)**

In June 2015, the GASB issued Statement No 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. This OPEB standard will require the University to recognize on the face of the financial statements its Public School Employees Retirement Plan (MPERS). The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for periods beginning after June 15, 2017.

**EASTERN MICHIGAN UNIVERSITY**

**REQUIRED SUPPLEMENTAL INFORMATION**

**Schedule of Pension Funding Progress**

Michigan Public School Employees Retirement Plan

(Amounts were determined as of 9/30 of each fiscal year)

	<u><b>2015</b></u>
University's proportion of the Universities collective MPSERS net pension liability:	
As a percentage	13.56%
Amount	\$ 50,881,674
University's covered-employee payroll	\$ 11,619,235
University's proportionate share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	437.91%
Plan fiduciary net position as a percentage of total pension liability (Per ORS)	63.00%

**Schedule of Contributions**

Michigan Public School Employees Retirement Plan

(Amounts were determined as of 6/30 of each fiscal year)

	<u><b>2015</b></u>
Statutorily required contributions	\$ 4,386,720
Contributions in relation to actuarially determined contractually required contribution	\$ 4,541,931
Contributions deficiency (excess)	\$ (155,211)
Covered-employee payroll	\$ 11,075,064
Contributions as a percentage of covered-employee payroll	41.01%

**EASTERN MICHIGAN UNIVERSITY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR  
ENDED JUNE 30, 2015**

**Changes of benefit terms** – There were no changes of benefit terms in 2014.

**Changes of assumptions** – There were no changes of assumptions in 2014.

**EASTERN MICHIGAN UNIVERSITY**

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**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2015**

	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>	<u>Expendable Restricted Fund</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ (10,314,260)	\$ 5,457,164	\$ 9,762,949	\$ 5,237,089
Accounts receivable - Net	6,370,678	998,515	2,861,251	7,772,275
Appropriation receivable	13,049,292	-	-	-
Inventories	519,088	-	610,539	-
Deposits and prepaid expenses	4,327,592	3,805	272,982	64,700
Accrued interest receivable	8,145	-	-	-
Total current assets	<u>13,960,535</u>	<u>6,459,484</u>	<u>13,507,721</u>	<u>13,074,064</u>
Noncurrent assets:				
Student loans receivable - Net	-	-	-	-
Long-term investments - unrestricted	24,488,626	-	-	84,247
Long-term investments - restricted	-	-	-	-
Capital assets - Net	-	-	-	-
Fair value of derivative instruments	-	-	-	-
Total noncurrent assets	<u>24,488,626</u>	<u>-</u>	<u>-</u>	<u>84,247</u>
Total assets	<u>\$ 38,449,161</u>	<u>\$ 6,459,484</u>	<u>\$ 13,507,721</u>	<u>\$ 13,158,311</u>
<b>DEFERRED OUTFLOWS</b>	<u>5,176,926</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -
Current portion of interest rate swaps	-	-	-	-
Accounts payable and accrued liabilities	5,966,548	87,930	3,578,769	4,285,601
Accrued payroll	10,218,355	-	-	-
Payroll taxes and accrued fringe benefits	6,921,239	-	444,475	-
Unearned fees and deposits	5,343,779	635	216,806	1,155,894
Insurance and other claims payable	2,108,393	-	633,287	-
Total current liabilities	<u>30,558,314</u>	<u>88,565</u>	<u>4,873,337</u>	<u>5,441,495</u>
Noncurrent liabilities:				
Accrued compensated absences	1,871,044	-	159,838	-
Long-term debt	-	-	-	-
Interest rate swaps	-	-	-	-
Federal perkins	-	-	-	-
Pension obligations	50,881,674	-	-	-
Net other postemployment benefit obligations	2,712,000	-	-	-
Total noncurrent liabilities	<u>55,464,718</u>	<u>-</u>	<u>159,838</u>	<u>-</u>
Total liabilities	<u>\$ 86,023,032</u>	<u>\$ 88,565</u>	<u>\$ 5,033,175</u>	<u>\$ 5,441,495</u>
<b>DEFERRED INFLOWS</b>	<u>4,891,818</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	\$ -	\$ -	\$ -
Restricted-University development and Perkins loans	-	-	-	7,716,816
Unrestricted (deficit)	-	-	-	-
Designated	-	6,370,919	8,474,546	-
Undesignated (deficit)	(47,288,763)	-	-	-
Total net position	<u>\$ (47,288,763)</u>	<u>\$ 6,370,919</u>	<u>\$ 8,474,546</u>	<u>\$ 7,716,816</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2015**

	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>	<u>Consolidated Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ 3,316,131	\$ 1,109,954	\$ 604,445	\$ 15,173,472
Accounts receivable - Net	-	553,870	-	18,556,589
Appropriation receivable	-	-	-	13,049,292
Inventories	-	-	-	1,129,627
Deposits and prepaid expenses	-	429,912	-	5,098,991
Accrued interest receivable	379	-	-	8,524
Total current assets	<u>3,316,510</u>	<u>2,093,736</u>	<u>604,445</u>	<u>53,016,495</u>
Noncurrent assets:				
Student loans receivable - Net	8,334,823	-	-	8,334,823
Long-term investments - unrestricted	-	-	-	24,572,873
Long-term investments - restricted	-	19,826,258	-	19,826,258
Capital assets - Net	-	459,264,603	-	459,264,603
Fair value of derivative instruments	-	9,464,255	-	9,464,255
Total noncurrent assets	<u>8,334,823</u>	<u>488,555,116</u>	<u>-</u>	<u>521,462,812</u>
Total assets	<u>\$ 11,651,333</u>	<u>\$ 490,648,852</u>	<u>\$ 604,445</u>	<u>\$ 574,479,307</u>
<b>DEFERRED OUTFLOWS</b>	<u>-</u>	<u>2,271,687</u>	<u>-</u>	<u>7,448,613</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 2,575,000	\$ -	\$ 2,575,000
Current portion of interest rate swaps	-	5,415,413	-	5,415,413
Accounts payable and accrued liabilities	16,127	6,704,082	(1)	20,639,056
Accrued payroll	-	-	-	10,218,355
Payroll taxes and accrued fringe benefits	-	-	-	7,365,714
Unearned fees and deposits	-	-	604,446	7,321,560
Insurance and other claims payable	-	69,870	-	2,811,550
Total current liabilities	<u>16,127</u>	<u>14,764,365</u>	<u>604,445</u>	<u>56,346,648</u>
Noncurrent liabilities:				
Accrued compensated absences	-	-	-	2,030,882
Long-term debt	-	251,765,000	-	251,765,000
Interest rate swaps	-	34,641,730	-	34,641,730
Federal perkins	9,679,931	-	-	9,679,931
Pension obligations	-	-	-	50,881,674
Net other postemployment benefit obligations	-	-	-	2,712,000
Total noncurrent liabilities	<u>9,679,931</u>	<u>286,406,730</u>	<u>-</u>	<u>351,711,217</u>
Total liabilities	<u>\$ 9,696,058</u>	<u>\$ 301,171,095</u>	<u>\$ 604,445</u>	<u>\$ 408,057,865</u>
<b>DEFERRED INFLOWS</b>	<u>-</u>	<u>12,800,627</u>	<u>-</u>	<u>17,692,445</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	\$ 183,629,033	\$ -	\$ 183,629,033
Restricted-University development and Perkins loans	1,955,275	-	-	9,672,091
Unrestricted (deficit)	-	-	-	-
Designated	-	-	-	14,845,465
Undesignated (deficit)	-	(4,680,216)	-	(51,968,979)
Total net position	<u>\$ 1,955,275</u>	<u>\$ 178,948,817</u>	<u>\$ -</u>	<u>\$ 156,177,610</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2015**

	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ 214,609,499	\$ 805,532	\$ -	\$ 743,104
Scholarship allowances	-	-	-	-
Net student tuition and fees	<u>214,609,499</u>	<u>805,532</u>	<u>-</u>	<u>743,104</u>
Federal grants and contracts	-	-	-	6,496,714
Federal financial aid	-	-	-	1,928,098
State grants and contracts	-	-	-	1,229,272
State financial aid	-	-	-	1,171,949
Nongovernmental grants and contracts	-	-	-	1,113,078
Departmental activities	2,770,175	5,220,152	-	-
Auxiliary activities - Net	-	-	46,049,571	-
Indirect cost recovery (deduction)	463,800	465,223	-	(929,023)
Other	2,143,082	-	-	427,778
Total operating revenues	<u>219,986,556</u>	<u>6,490,907</u>	<u>46,049,571</u>	<u>12,180,970</u>
<b>OPERATING EXPENSES</b>				
Instruction	120,102,623	692,447	-	165,506
Research	1,841,576	76,539	-	1,218,621
Public service	3,211,631	549,649	-	7,722,382
Academic support	32,338,188	1,058,115	-	24,389
Student services	27,464,549	2,337,729	-	51,603
Institutional support	29,867,677	547,327	-	(64,140)
Scholarships and fellowships	44,897,669	15,631	-	39,709,500
Operation and maintenance of plant	24,349,508	83,431	-	-
Auxiliary activities expenses - Net	-	-	39,889,355	-
Depreciation	-	-	-	-
Capital additions - Net	737,986	19,849	89,133	521,164
Pension Expense	-	-	-	-
Other	868,798	-	-	-
Total operating expenses	<u>285,680,205</u>	<u>5,380,717</u>	<u>39,978,488</u>	<u>49,349,025</u>
Operating income (loss)	<u>(65,693,649)</u>	<u>1,110,190</u>	<u>6,071,083</u>	<u>(37,168,055)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	72,620,994	-	-	-
Gifts	-	(17,145)	-	4,553,179
Investment income	483,611	-	-	3,894
Interest expense	-	-	-	-
Interest ARRA subsidy	-	-	-	-
Pell grants	-	-	-	32,938,433
Other	-	-	-	457,828
Net nonoperating revenues (expenses) before transfers and capital items	<u>73,104,605</u>	<u>(17,145)</u>	<u>-</u>	<u>37,953,334</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	(6,170,019)	-	(2,242,644)	-
Matching funds	(466,367)	3,480	-	447,407
Non-mandatory:				
Other	(10,310,538)	(918,606)	(451,149)	(441,326)
Total transfers	<u>(16,946,924)</u>	<u>(915,126)</u>	<u>(2,693,793)</u>	<u>6,081</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	-	-	-
Total net nonoperating and other revenues (expenses)	<u>56,157,681</u>	<u>(932,271)</u>	<u>(2,693,793)</u>	<u>37,959,415</u>
(Decrease) Increase in net position	<u>(9,535,968)</u>	<u>177,919</u>	<u>3,377,290</u>	<u>791,360</u>
<b>NET POSITION, Beginning of year</b>	11,974,958	6,193,000	5,097,256	6,925,456
Adjustment For Change in Accounting Principle	(49,727,753)	-	-	-
<b>NET POSITION, Beginning of year, As Restated</b>	<u>(37,752,795)</u>	<u>6,193,000</u>	<u>5,097,256</u>	<u>6,925,456</u>
<b>NET POSITION, End of year</b>	<u>\$ (47,288,763)</u>	<u>\$ 6,370,919</u>	<u>\$ 8,474,546</u>	<u>\$ 7,716,816</u>



**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2015**

	Student Loan Fund	Plant Fund	Eliminations	Consolidated
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ -	\$ -	\$ -	216,158,135
Scholarship allowances	-	-	(47,174,332)	(47,174,332)
Net student tuition and fees	-	-	(47,174,332)	168,983,803
Federal grants and contracts	139,317	-	-	6,636,031
Federal financial aid	-	-	-	1,928,098
State grants and contracts	-	-	-	1,229,272
State financial aid	-	-	-	1,171,949
Nongovernmental grants and contracts	-	-	-	1,113,078
Departmental activities	-	-	-	7,990,327
Auxiliary activities - Net	-	-	(7,388,966)	38,660,605
Indirect cost recovery (deduction)	-	-	-	-
Other	50,401	320,605	-	2,941,866
Total operating revenues	<u>189,718</u>	<u>320,605</u>	<u>(54,563,298)</u>	<u>230,655,029</u>
<b>OPERATING EXPENSES</b>				
Instruction	-	-	-	120,960,576
Research	-	-	-	3,136,736
Public service	-	-	-	11,483,662
Academic support	-	-	-	33,420,692
Student services	-	-	-	29,853,881
Institutional support	-	-	-	30,350,864
Scholarships and fellowships	-	-	(47,174,332)	37,448,468
Operation and maintenance of plant	-	4,170,156	-	28,603,095
Auxiliary activities expenses - Net	-	-	(7,388,966)	32,500,389
Depreciation	-	15,253,178	-	15,253,178
Capital additions - Net	-	(1,368,132)	-	-
Pension Expense	-	-	-	-
Other	230,035	199,929	-	1,298,762
Total operating expenses	<u>230,035</u>	<u>18,255,131</u>	<u>(54,563,298)</u>	<u>344,310,303</u>
Operating income (loss)	<u>(40,317)</u>	<u>(17,934,526)</u>	<u>-</u>	<u>(113,655,274)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	-	-	-	72,620,994
Gifts	-	-	-	4,536,034
Investment income	193,907	787,873	-	1,469,285
Interest expense	-	(9,307,584)	-	(9,307,584)
Interest ARRA subsidy	-	1,733,254	-	1,733,254
Pell grants	-	-	-	32,938,433
Other	-	-	(1,897)	455,931
Net nonoperating revenues (expenses) before transfers and capital items	<u>193,907</u>	<u>(6,786,457)</u>	<u>(1,897)</u>	<u>104,446,347</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	-	8,412,663	-	-
Matching funds	15,480	-	-	-
Non-mandatory:				
Other	-	12,119,722	1,897	-
Total transfers	<u>15,480</u>	<u>20,532,385</u>	<u>1,897</u>	<u>-</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	564,757	-	564,757
Total net nonoperating and other revenues (expenses)	<u>209,387</u>	<u>14,310,685</u>	<u>-</u>	<u>105,011,104</u>
(Decrease) Increase in net position	<u>169,070</u>	<u>(3,623,841)</u>	<u>-</u>	<u>(8,644,170)</u>
<b>NET POSITION, Beginning of year</b>	1,786,205	182,572,658	-	214,549,533
Adjustment For Change in Accounting Principle	-	-	-	(49,727,753)
<b>NET POSITION, Beginning of year, As Restated</b>	1,786,205	182,572,658	-	164,821,780
<b>NET POSITION, End of year</b>	<u>\$ 1,955,275</u>	<u>\$ 178,948,817</u>	<u>\$ -</u>	<u>\$ 156,177,610</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2014**

	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>	<u>Expendable Restricted Fund</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ (11,005,118)	\$ 5,631,555	\$ 6,802,941	\$ 4,766,795
Accounts receivable - Net	6,403,170	630,147	2,765,000	7,281,288
Appropriation receivable	12,231,895	-	-	-
Inventories	313,624	-	533,254	-
Deposits and prepaid expenses	2,017,838	281,326	114,412	9,366
Accrued interest receivable	50,689	-	-	-
Total current assets	<u>10,012,098</u>	<u>6,543,028</u>	<u>10,215,607</u>	<u>12,057,449</u>
Noncurrent assets:				
Student loans receivable - Net	-	-	-	-
Long-term investments - unrestricted	34,577,454	-	-	80,353
Long-term investments - restricted	-	-	-	-
Capital assets - Net	-	-	-	-
Fair value of derivative instruments	-	-	-	-
Total noncurrent assets	<u>34,577,454</u>	<u>-</u>	<u>-</u>	<u>80,353</u>
Total assets	<u>\$ 44,589,552</u>	<u>\$ 6,543,028</u>	<u>\$ 10,215,607</u>	<u>\$ 12,137,802</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -
Current portion of interest rate swaps	-	-	-	-
Accounts payable and accrued liabilities	5,046,178	218,493	3,631,804	4,595,574
Accrued payroll	8,633,868	-	-	-
Payroll taxes and accrued fringe benefits	7,700,103	-	419,130	-
Unearned fees and deposits	5,033,957	131,535	227,306	616,772
Insurance and other claims payable	2,356,762	-	691,046	-
Total current liabilities	<u>28,770,868</u>	<u>350,028</u>	<u>4,969,286</u>	<u>5,212,346</u>
Noncurrent liabilities:				
Accrued compensated absences	2,035,726	-	149,065	-
Long-term debt	-	-	-	-
Interest rate swaps	-	-	-	-
Federal perkins	-	-	-	-
Pension Obligations	-	-	-	-
Net other postemployment benefit obligations	1,808,000	-	-	-
Total noncurrent liabilities	<u>3,843,726</u>	<u>-</u>	<u>149,065</u>	<u>-</u>
Total liabilities	<u>\$ 32,614,594</u>	<u>\$ 350,028</u>	<u>\$ 5,118,351</u>	<u>\$ 5,212,346</u>
<b>DEFERRED INFLOWS</b>				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	\$ -	\$ -	\$ -
Restricted-University development and Perkins loans	-	-	-	6,925,456
Unrestricted				
Designated	-	6,193,000	5,097,256	-
Undesignated	11,974,958	-	-	-
Total net position	<u>\$ 11,974,958</u>	<u>\$ 6,193,000</u>	<u>\$ 5,097,256</u>	<u>\$ 6,925,456</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2014**

	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>	<u>Consolidated Total</u>
<b>A S S E T S</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ 2,452,912	\$ 1,865,158	\$ 618,449	\$ 11,132,692
Accounts receivable - Net	-	90,529	-	17,170,134
Appropriation receivable	-	-	-	12,231,895
Inventories	-	-	-	846,878
Deposits and prepaid expenses	-	475,950	-	2,898,892
Accrued interest receivable	379	-	-	51,068
Total current assets	<u>2,453,291</u>	<u>2,431,637</u>	<u>618,449</u>	<u>44,331,559</u>
Noncurrent assets:				
Student loans receivable - Net	9,130,355	-	-	9,130,355
Long-term investments - unrestricted	-	-	-	34,657,807
Long-term investments - restricted	-	146,198	-	146,198
Capital assets - Net	-	463,116,285	-	463,116,285
Fair value of derivative instruments	-	13,459,796	-	13,459,796
Total noncurrent assets	<u>9,130,355</u>	<u>476,722,279</u>	<u>-</u>	<u>520,510,441</u>
Total assets	<u>\$ 11,583,646</u>	<u>\$ 479,153,916</u>	<u>\$ 618,449</u>	<u>\$ 564,842,000</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 2,475,000	\$ -	\$ 2,475,000
Current portion of interest rate swaps	-	2,613,852	-	2,613,852
Accounts payable and accrued liabilities	-	4,770,246	20,997	18,283,292
Accrued payroll	-	-	-	8,633,868
Payroll taxes and accrued fringe benefits	-	-	-	8,119,233
Unearned fees and deposits	-	-	597,452	6,607,022
Insurance and other claims payable	-	37,500	-	3,085,308
Total current liabilities	<u>-</u>	<u>9,896,598</u>	<u>618,449</u>	<u>49,817,575</u>
Noncurrent liabilities:				
Accrued compensated absences	-	-	-	2,184,791
Long-term debt	-	234,875,000	-	234,875,000
Interest rate swaps	-	38,349,864	-	38,349,864
Federal perkins	9,797,441	-	-	9,797,441
Pension Obligations	-	-	-	-
Net other postemployment benefit obligations	-	-	-	1,808,000
Total noncurrent liabilities	<u>9,797,441</u>	<u>273,224,864</u>	<u>-</u>	<u>287,015,096</u>
Total liabilities	<u>\$ 9,797,441</u>	<u>283,121,462</u>	<u>\$ 618,449</u>	<u>\$ 336,832,671</u>
<b>DEFERRED INFLOWS</b>	<u>-</u>	<u>13,459,796</u>	<u>-</u>	<u>13,459,796</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	184,802,569	\$ -	\$ 184,802,569
Restricted-University development and Perkins loans	1,786,205	146,198	-	8,857,859
Unrestricted				
Designated	-	(2,376,109)	-	8,914,147
Undesignated	-	-	-	11,974,958
Total net position	<u>\$ 1,786,205</u>	<u>\$ 182,572,658</u>	<u>\$ -</u>	<u>\$ 214,549,533</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2014**

	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ 213,903,358	\$ 595,094	\$ -	\$ 770,976
Scholarship allowances	-	-	-	-
Net student tuition and fees	<u>213,903,358</u>	<u>595,094</u>	<u>-</u>	<u>770,976</u>
Federal grants and contracts	-	-	-	4,915,203
Federal financial aid	-	-	-	1,669,516
State grants and contracts	-	-	-	946,409
State financial aid	-	-	-	839,455
Nongovernmental grants and contracts	-	-	-	2,278,973
Departmental activities	2,339,274	4,090,126	-	-
Auxiliary activities revenue, net	-	-	45,983,777	-
Indirect cost recovery (deduction)	430,486	458,309	-	(888,795)
Other	2,503,211	-	-	441,189
Total operating revenues	<u>219,176,329</u>	<u>5,143,529</u>	<u>45,983,777</u>	<u>10,972,926</u>
<b>OPERATING EXPENSES</b>				
Instruction	119,325,330	678,297	-	223,047
Research	2,482,778	78,195	-	1,501,109
Public service	3,874,205	410,497	-	7,646,499
Academic support	30,546,122	1,032,348	-	30,611
Student services	25,425,739	2,598,345	-	43,061
Institutional support	29,307,365	652,091	-	158,388
Scholarships and fellowships	41,412,608	-	-	40,926,863
Operation and maintenance of plant	25,244,812	130,951	-	-
Auxiliary activities expenses, net	-	-	38,207,770	-
Depreciation	-	-	-	-
Capital additions, net	1,065,460	42,805	237,277	97,388
Other	-	-	-	-
Total operating expenses	<u>278,684,419</u>	<u>5,623,529</u>	<u>38,445,047</u>	<u>50,626,966</u>
Operating income (loss)	<u>(59,508,090)</u>	<u>(480,000)</u>	<u>7,538,730</u>	<u>(39,654,040)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	67,595,296	-	-	-
Gifts	-	(1,897)	-	4,335,184
Investment income	4,156,342	-	-	2,402
Interest expense	-	-	-	-
Interest ARRA subsidy	-	-	-	-
Pell grants	-	-	-	34,311,524
Other	1,096,810	-	-	252,981
Net nonoperating revenues (expenses) before transfers and capital items	<u>72,848,448</u>	<u>(1,897)</u>	<u>-</u>	<u>38,902,091</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	(5,945,619)	-	(2,572,885)	-
Matching funds	(379,281)	37,589	-	321,176
Non-mandatory:				
Other	(9,412,298)	417,125	(5,034,973)	335,045
Total transfers	<u>(15,737,198)</u>	<u>454,714</u>	<u>(7,607,858)</u>	<u>656,221</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	-	-	-
Total net nonoperating and other revenues (expenses)	<u>57,111,250</u>	<u>452,817</u>	<u>(7,607,858)</u>	<u>39,558,312</u>
(Decrease) Increase in net position	<u>(2,396,840)</u>	<u>(27,183)</u>	<u>(69,128)</u>	<u>(95,728)</u>
<b>NET POSITION, Beginning of year</b>	<u>14,371,798</u>	<u>6,220,183</u>	<u>5,166,384</u>	<u>7,021,184</u>
<b>NET POSITION, End of year</b>	<u>\$ 11,974,958</u>	<u>\$ 6,193,000</u>	<u>\$ 5,097,256</u>	<u>\$ 6,925,456</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2014**

	Student Loan Fund	Plant Fund	Eliminations	Consolidated
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ -	\$ -	\$ -	\$ 215,269,428
Scholarship allowances	-	-	(45,178,526)	(45,178,526)
Net student tuition and fees	-	-	(45,178,526)	170,090,902
Federal grants and contracts	45,891	-	-	4,961,094
Federal financial aid	-	-	-	1,669,516
State grants and contracts	-	-	-	946,409
State financial aid	-	-	-	839,455
Nongovernmental grants and contracts	-	-	-	2,278,973
Departmental activities	-	-	-	6,429,400
Auxiliary activities revenue, net	-	-	(6,650,479)	39,333,298
Indirect cost recovery (deduction)	-	-	-	-
Other	45,729	-	-	2,990,129
Total operating revenues	<u>91,620</u>	<u>-</u>	<u>(51,829,005)</u>	<u>229,539,176</u>
<b>OPERATING EXPENSES</b>				
Instruction	-	-	-	120,226,674
Research	-	-	-	4,062,082
Public service	-	-	-	11,931,201
Academic support	-	-	-	31,609,081
Student services	-	-	-	28,067,145
Institutional support	-	-	-	30,117,844
Scholarships and fellowships	-	-	(45,178,526)	37,160,945
Operation and maintenance of plant	-	2,187,670	-	27,563,433
Auxiliary activities expenses, net	-	-	(6,650,479)	31,557,291
Depreciation	-	15,712,871	-	15,712,871
Capital additions, net	-	(1,442,930)	-	-
Other	194,654	848,872	-	1,043,526
Total operating expenses	<u>194,654</u>	<u>17,306,483</u>	<u>(51,829,005)</u>	<u>339,052,093</u>
Operating income (loss)	<u>(103,034)</u>	<u>(17,306,483)</u>	<u>-</u>	<u>(109,512,917)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	-	-	-	67,595,296
Gifts	-	2,100	-	4,335,387
Investment income	174,246	-	-	4,332,990
Interest expense	-	(9,619,090)	-	(9,619,090)
Interest ARRA subsidy	-	1,731,362	-	1,731,362
Pell grants	-	-	-	34,311,524
Other	-	2	896	1,350,689
Net nonoperating revenues (expenses) before transfers and capital items	<u>174,246</u>	<u>(7,885,626)</u>	<u>896</u>	<u>104,038,158</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	-	8,518,504	-	-
Matching funds	20,516	-	-	-
Non-mandatory:				
Other	-	13,695,997	(896)	-
Total transfers	<u>20,516</u>	<u>22,214,501</u>	<u>(896)</u>	<u>-</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	925,334	-	925,334
Total net nonoperating and other revenues (expenses)	<u>194,762</u>	<u>15,254,209</u>	<u>-</u>	<u>104,963,492</u>
(Decrease) Increase in net position	<u>91,728</u>	<u>(2,052,274)</u>	<u>-</u>	<u>(4,549,425)</u>
<b>NET POSITION, Beginning of year</b>	<u>1,694,477</u>	<u>184,624,932</u>	<u>-</u>	<u>219,098,958</u>
<b>NET POSITION, End of year</b>	<u>\$ <u>1,786,205</u></u>	<u>\$ <u>182,572,658</u></u>	<u>\$ <u>-</u></u>	<u>\$ <u>214,549,533</u></u>

## University Notes to Supplemental Schedules

### **Basis of Presentation:**

The University utilizes four current and three noncurrent fund groupings for internal operating purposes, as follows:

#### Current Fund Groupings:

General Fund is used to account for general operating activities.

Designated Fund is used to account for funds designated by the University.

Auxiliary Activities Fund is used to account for services and facilities provided to students, faculty, staff, and the public and is managed to operate as a self-supporting activity.

Expendable Restricted Fund is used to account for funds restricted by donor or supporting agency.

#### Noncurrent Fund Groupings:

Student Loan Fund is used to account for transactions related to loans to students.

Plant Fund is used to account for transactions relating to investments in physical properties, indebtedness incurred in the financing thereof and reserves for maintenance, replacement, insurance, and debt service.

Agency Fund is used to account for amounts held in custody for students, University-related organizations, and others.

The eliminations on the Schedules of Revenues, Expenses, and Changes in Net Position by Fund represent the reclass of scholarship allowances as required by Governmental Accounting Standards Board Statement No. 35 - *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.



