

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 72
DATE: September 19, 2006

RECOMMENDATION

**CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION AS OF JUNE 30, 2006 AND 2005**

ACTION REQUESTED

It is recommended that the Board of Regents receive, approve and place on file the University's audited fiscal 2006 Financial Statements.

STAFF SUMMARY

The Financial Statements and Supplementary Information as of June 30, 2006 and 2005 are attached for your review. Representatives from Plante & Moran, PLLC reported that the audit was performed in accordance with Generally Accepted Accounting Standards ("GAAS"), and the internal control environment and overall attitude towards controls at the University continue to be strong. They also reported that there were no disagreements between management and the auditors on the conduct of the audit, and management's accounting judgments and estimates are reasonable.

Representatives of Plante & Moran will attend the Finance, Audit and Investment Committee meeting to discuss the financial statement highlights.

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.

University Executive Officer

Date

Eastern Michigan University

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June 30, 2006 and 2005

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Independent Auditor's Report

To the Board of Regents of
Eastern Michigan University

We have audited the accompanying balance sheet of Eastern Michigan University and its discretely presented component unit as of June 30, 2006 and June 30, 2005 and the related statement of revenue, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Michigan University and its discretely presented component unit as of June 30, 2006 and June 30, 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2006 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 and grant agreements. 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 opinions 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.

The Management's Discussion and Analysis on pages 2 to 8 are not a required part of these financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

August 29, 2006

EASTERN MICHIGAN UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Eastern Michigan University ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2006, 2005, and 2004. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

Using the Annual Financial Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. Changes in net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities. Net Assets and accounts receivable as of July 1, 2004 have been restated by (\$1,989,730) to correct information technology conversion-related misstatements. The adjustment had no effect on the change in net assets for 2006 or 2005.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing and related investing activities, and helps measure the ability to meet financial obligations as they mature.

The University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, in 2004. As such, the Eastern Michigan University Foundation ("Foundation") financial statements, footnotes, and management's discussion and analysis have been discretely incorporated into the University's financial statements.

The Foundation, located in Ypsilanti, Michigan, is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences. Management's discussion and analysis of the financial performance of the Foundation during the fiscal years ended June 30, 2006, 2005, and 2004 is reflected on pages 9 to 13 of this report.

Financial Activity

The University's financial position improved during the fiscal year ended June 30, 2006 as compared to the previous two years as evidenced by:

- The University's current assets increased by \$25.7 million in 2006 versus 2005 primarily due to increased investments in 28-day auction rate securities. Current assets increased in 2005 by \$0.2 million over 2004 primarily due to increased accounts receivable.
- Total liabilities increased by \$26.5 million in 2006 over 2005 primarily due to the issuance of long-term bonds and payments due on capital projects. Total liabilities decreased by \$4.0 million in 2005 versus 2004 primarily due to long-term bond payments.
- In 2006, the University's net assets increased by \$5.0 million to \$263 million, of which \$233 million is either invested in capital assets or restricted. Of the remaining \$29.3 million in unrestricted assets, all but \$5.2 million is designated for specific purposes. In 2005 the University's net assets increased by \$0.7 million to \$258 million, of which \$230 million was either invested in capital assets or restricted. Of the remaining \$28.0 million in unrestricted assets, all but \$4.5 million was designated for specific purposes.
- Operating revenues increased by \$16.4 million in 2006 versus 2005. The increases were primarily from student tuition and fees. In 2005, operating revenues decreased by \$0.4 million versus 2004 primarily due to auxiliary activities.
- In 2006, the University's operating expenses increased by \$12.4 million, primarily due to increased instruction expenses of \$5.7 million, \$4.0 million in operations and maintenance of plant, and \$1.0 million in scholarships. In 2005, the University's operating expenses increased by \$2.4 million, primarily due to increased instruction expenses of \$1.9 million.
- In 2006, State appropriations, \$76.8 million, were the most significant nonoperating revenue and included \$0.6 million restored from 2005 under the Governor's executive order. In 2005, State appropriations of \$79.1 million included \$2.4 million from the Governor's tuition restraint pledge. In 2004, State appropriations were \$74.9 million. Excluding the timing factors from the executive orders, appropriations were down \$0.5 million in 2006 versus 2005 and \$0.6 million in 2005 versus 2004.
- In 2006, the \$73.3 million operating loss combined with other cash requirements (principal and interest payments), totaled \$84.0 million which was partially funded by State appropriations. In 2005, the \$77.3 million operating loss combined with cash requirements (principal and interest payments), totaled \$87.2 million which was partially funded by State appropriations.

Eastern Michigan University
Condensed Statements of Net Assets
as of June 30, 2006, 2005 and 2004 (as restated)
(in thousands)

ASSETS	2006	2005 (as restated)	2004 (as restated)
Current assets	104,771	79,026	78,840
Noncurrent assets	358,458	352,692	356,136
Total assets	<u>\$ 463,229</u>	<u>\$ 431,718</u>	<u>\$ 434,976</u>
LIABILITIES			
Current liabilities:	48,616	39,426	38,422
Noncurrent liabilities:	152,071	134,734	139,736
Total liabilities	<u>\$ 200,687</u>	<u>\$ 174,160</u>	<u>\$ 178,158</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 189,229	\$ 191,492	\$ 192,514
Restricted, expendable	43,979	38,038	38,623
Unrestricted, designated	24,869	23,524	21,624
Unrestricted, undesignated	4,467	4,504	4,057
Total net assets	<u>\$ 262,543</u>	<u>\$ 257,558</u>	<u>\$ 256,818</u>

At June 30, 2006, total University assets were \$463 million, compared to \$432 million in fiscal 2005. The University's largest asset is its investment in physical plant of \$311 million at June 30, 2006 compared to \$291 million in fiscal 2005, net of accumulated depreciation.

At June 30, 2005, total University assets were \$432 million, compared to \$435 million in fiscal 2004. The University's largest asset is its investment in physical plant of \$291 million at June 30, 2005 compared to \$290 million in fiscal 2004, net of accumulated depreciation.

In fiscal 2006, the University's current assets of \$105 million were sufficient to cover current liabilities of \$49 million (current ratio of 2.14). In fiscal 2005, current assets of \$79 million were sufficient to cover current liabilities of \$39 million (current ratio of 2.03). The fiscal 2006 increase in current assets of \$15.1 million was primarily due to cash from increased student tuition and fees. The \$16.4 million increase in noncurrent assets was primarily due to bond proceeds received for capital projects.

In fiscal 2004, the University's current assets of \$79 million were sufficient to cover current liabilities of \$38 million (current ratio of 2.08). The fiscal 2005 increase in current assets of \$0.5 million was primarily due to increased cash from student tuition and fees. The \$3.7 million decrease in noncurrent assets was primarily due to depreciation expense in excess of new capital acquisitions.

University liabilities total \$201 million at June 30, 2006, compared to \$174 million in fiscal 2005 and \$178 million in fiscal 2004. Long-term debt of \$149 million, \$131 million, and \$135 million,

consisting of bonds payable, is the largest liability as of June 30, 2006, 2005, and 2004, respectively.

In 2006, total net assets increased by \$5.0 million to \$263 million. Unrestricted designated assets increased by \$0.6 million in 2006, primarily due to increased interest yields.

In 2005, total net assets increased by \$0.7 million to \$258 million. Unrestricted designated assets increased by \$1.9 million in 2005, primarily due to increased interest yields, favorable market rates, and planned savings in technology.

Unrestricted net assets are designated for ongoing academic and research programs, capital projects and other strategic initiatives.

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the University and is summarized below. Consistent with GASB requirements, revenues are categorized as operating or nonoperating.

Eastern Michigan University
Condensed Statements of Revenues, Expenses and Changes in Net Assets
for the years ended June 30, 2006, 2005 and 2004
(in thousands)

	<u>2006</u>	<u>2005 (as restated)</u>	<u>2004 (as restated)</u>
Operating revenues			
Student Tuition and fees	\$ 154,539	\$ 137,652	\$ 134,719
Less: Scholarship allowances	(16,348)	(14,939)	(14,422)
Net student tuition and fees	138,191	122,713	120,297
Sponsored programs	28,777	28,382	28,905
Other	38,049	37,483	39,769
Total operating revenues	<u>205,017</u>	<u>188,578</u>	<u>188,971</u>
Nonoperating and Other Revenues			
State appropriations	76,765	79,051	74,930
Gifts	3,448	2,855	2,988
Investment Income	3,403	2,538	1,429
Other	887	460	1,249
Total nonoperating and other revenues	<u>84,503</u>	<u>84,904</u>	<u>80,596</u>
Total Revenues	<u>\$ 289,520</u>	<u>\$ 273,482</u>	<u>\$ 269,567</u>

The most significant sources of operating revenues for the University are student tuition and fees, grants and contracts, and auxiliary activities.

Operating revenues increased by \$16.4 million in 2006 versus 2005. The increases were primarily from student tuition and fees. In 2005, operating revenues decreased by \$0.4 million versus 2004 primarily due to auxiliary activities.

Net nonoperating revenue increased by \$0.2 million and \$5.1 million, respectively, in 2006 and 2005. The 2005 increase was primarily due to the 2004 State Appropriation rebate received in 2005.

Operating and nonoperating expenses by functional classification are presented below:

	<u>2006</u>	<u>2005 (as restated)</u>	<u>2004 (as restated)</u>
Operating Expenses			
Instruction	98,737	93,035	91,136
Research	5,208	4,946	4,753
Public service	10,885	10,822	11,576
Academic support	20,769	19,602	19,659
Student services	23,599	24,719	24,754
Institutional support	33,824	32,430	32,699
Scholarships and fellowships	18,778	17,717	16,996
Operation and maintenance of plant	22,741	18,766	16,911
Auxiliary activities, net (note 1)	27,863	27,532	29,172
Depreciation and other	15,886	16,332	15,775
Total Operating expenses	<u>278,290</u>	<u>265,901</u>	<u>263,431</u>
Nonoperating Expenses			
Interest expense	<u>6,245</u>	<u>6,840</u>	<u>7,620</u>
Total nonoperating expenses	<u>6,245</u>	<u>6,840</u>	<u>7,620</u>
Total Expenses	<u>\$ 284,535</u>	<u>\$ 272,741</u>	<u>\$ 271,051</u>
Total increase in net assets	4,985	741	(1,484)
Net assets, beginning of year	<u>257,558</u>	<u>256,817</u>	<u>258,301</u>
Net assets, end of year	<u>\$ 262,543</u>	<u>\$ 257,558</u>	<u>\$ 256,817</u>

In 2006, the University's operating expenses increased by \$12.4 million, primarily due to increased instruction expenses of \$5.7 million, \$4.0 million in operations and maintenance of plant, and \$1.0 million in scholarships.

In 2005, The University's operating expenses increased by \$2.4 million, primarily due to increased instruction expenses of \$1.9 million.

Eastern Michigan University
Condensed Statements of Cash Flows
for the years ended June 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided/(used) by:			
Operating activities	\$ (49,452)	\$ (62,860)	\$ (60,439)
Noncapital financing activities	80,017	82,207	80,340
Capital and related financing activities	(28,999)	(26,926)	(23,325)
Investing activities:	24,000	7,621	3,558
Net increase (decrease) in cash	25,566	42	134
Cash and cash equivalents, beginning of year	40,110	40,068	39,934
Cash and cash equivalents, end of year	<u>\$ 65,676</u>	<u>\$ 40,110</u>	<u>\$ 40,068</u>
Supplemental disclosure of noncash items:			
Capital gifts received	<u>\$ 229</u>	<u>\$ 57</u>	<u>\$ 810</u>

For 2006, major sources of operating cash included student tuition and fees (\$154 million), auxiliary activities (\$36 million), and grants and contracts (\$22 million). The largest uses of operating cash were payments for suppliers and employees (\$221 million) and financial aid (\$36 million). The most significant source of noncapital financing activities cash was State appropriations (\$76 million).

For 2005, major sources of operating cash included student tuition and fees (\$135 million), auxiliary activities (\$36 million), and grants and contracts (\$29 million). The largest uses of operating cash were payments for suppliers and employees (\$218 million) and financial aid (\$34 million). The most significant source of noncapital financing activities cash was State appropriations (\$79 million).

For 2004, major sources of operating cash included student tuition and fees (\$133 million), auxiliary activities (\$35 million), and grants and contracts (\$28 million). The largest uses of operating cash were payments for suppliers and employees (\$214 million) and financial aid (\$32 million). The most significant source of noncapital financing activities cash was State appropriations (\$77 million).

Credit Ratings

The University's credit ratings by Moody's Investors Services went from "A2" in 2005 to "Aaa/VMIG 1" in 2006. The "A" credit rating by Standard & Poor's was renewed in 2006. The highest achievable ratings are "Aaa" and "AAA", respectively. The University's capacity to meet its financial obligations is considered strong by bond purchasers based upon these ratings.

Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 applies only to publicly traded corporations; however, management and the Board of Regents believe many of the principles are also appropriate for institutions of higher education. The University has adopted several of the principles of the Sarbanes-Oxley Act as recommended by the National Association of College and University Business Officers (NACUBO).

Looking Ahead

(This section is pending.)

Draft Sept 6

EASTERN MICHIGAN UNIVERSITY FOUNDATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the University annual financial report presents the Foundation management's discussion and analysis of the financial performance of the Foundation during the fiscal years ended June 30, 2006 and 2005. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of Foundation management.

The Consolidated Balance Sheet includes all assets and liabilities. Changes in net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the Foundation's financial health.

The Consolidated Statement of Activities and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities include unrestricted, temporarily restricted, or permanently restricted and are reported on a consolidated basis.

The Consolidated Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, investing, and financing activities, and helps measure the ability to meet financial obligations as they mature.

Draft Sept 6

Eastern Michigan University Foundation
Condensed Statements of Net Assets
as of June 30, 2006, 2005 and 2004
(in thousands)

ASSETS	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Cash and cash equivalents	\$ 3,467	\$ 2,742	\$ 2,469
Accounts receivable	606	364	329
Inventories	27	27	29
Accrued interest and dividends	124	92	89
Other assets	79	41	50
Contributions receivable (Note 11)	261	759	1,650
Life insurance cash surrender value	255	233	223
Property and equipment - Net (Note 12)	2,171	2,235	2,380
Investments (Note 13)	42,136	37,520	33,801
Investments held under split-interest agreements	1,539	1,524	1,382
Total assets	<u>\$ 50,665</u>	<u>\$ 45,537</u>	<u>\$ 42,402</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 301	\$ 828	\$ 568
Accrued liabilities	210	118	100
Mortgages payable (Note 14)	2,235	2,255	2,281
Liabilities under split-interest agreements	807	869	855
Total liabilities	<u>\$ 3,553</u>	<u>\$ 4,070</u>	<u>\$ 3,804</u>
NET ASSETS			
Unrestricted	\$ 2,221	\$ 1,931	\$ 1,375
Temporarily restricted	17,657	13,293	12,469
Permanently restricted	27,234	26,243	24,728
Total net assets	<u>\$ 47,112</u>	<u>\$ 41,467</u>	<u>\$ 38,572</u>

At June 30, 2006, total Foundation assets were \$50.7 million, compared to \$45.5 million in fiscal 2005 and \$42.4 million in 2004. The Foundation's largest asset is its investments of \$43.7 million at June 30, 2006 compared to \$39.0 million in 2005 and \$35.2 million in fiscal 2005.

Foundation liabilities total \$3.6 million at June 30, 2006, compared to \$4.1 million in 2005 and \$3.8 million in 2004. Mortgages payable of \$2.2 million, \$2.2 million, and \$2.3 million is the largest liability for 2006, 2005, and 2004, respectively. In 2006, total net assets increased by \$5.6 million to \$47.1 million primarily due to increased gifts to the endowment and a return of 11.6% on the investment portfolio. In 2005, total net assets increased by \$2.9 million to \$41.5 million primarily due to increased gifts to the endowment and a return of 11.4% on the investment portfolio. Unrestricted net assets are designated for ongoing advancement programs, capital projects and other strategic initiatives.

Eastern Michigan University Foundation
Condensed Statements of Activities and Changes in Net Assets
for the years ended June 30, 2006, 2005 and 2004
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue, Gains and Other Support:			
Contributions	\$ 5,836	\$ 3,677	\$ 5,127
Investment income	894	719	723
Net realized and unrealized gains (losses)	3,386	3,062	4,116
ECMC revenue	1,711	1,744	1,863
Administrative and management fee	1,631	1,720	1,850
Other revenue	81	85	80
Total Revenue, Gains, and Other Support	<u>13,539</u>	<u>11,007</u>	<u>13,759</u>
Expenses:			
Contributions to EMU:			
Expendable contributions	2,624	2,447	2,343
Contributions from endowment income	931	1,227	956
General and administrative - Foundation Management	511	417	460
Fund raising:	2,187	2,299	2,341
ECMC expenses	1,543	1,727	1,848
Other	10	12	23
Total expenses	<u>7,806</u>	<u>8,129</u>	<u>7,971</u>
Increase in Net Assets before other changes in net assets	5,733	2,878	5,788
Other Changes in Net Assets			
Funds transferred from EMU for endowment		42	26
Change in value of split interest agreement	(88)	(25)	(90)
Increase (Decrease) in Net Assets	5,645	2,895	5,724
Net assets, beginning of year	41,467	38,572	32,848
Net assets, end of year	<u>\$ 47,112</u>	<u>\$ 41,467</u>	<u>\$ 38,572</u>

The most significant sources of revenues for the Foundation are contributions and investment income, which includes realized and unrealized gains.

In 2006 expenses decreased by \$0.3 million primarily due to decreased fundraising and ECMC expenses. In 2005 expenses increased by \$0.1 million primarily due to increased expendable and endowed contributions to the University.

Net assets increased by \$5.6 million and \$2.9 million, respectively, for 2006 and 2005 primarily due to increased contributions and investment gains.

Eastern Michigan University Foundation
Condensed Statements of Cash Flows
for the years ended June 30, 2006, 2005 and 2004
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided/(used) by:			
Operating activities	\$ 1,245	\$ (310)	\$ (1,128)
Investing activities	(1,342)	(834)	(411)
Financing activities	822	1,417	1,999
Net Increase in Cash and cash equivalents	725	273	460
Cash and cash equivalents, beginning of year	2,742	2,469	2,009
Cash and cash equivalents, end of year	<u>\$ 3,467</u>	<u>\$ 2,742</u>	<u>\$ 2,469</u>

For 2006, major sources of cash included sales of investments (\$16.6 million), and contributions restricted for long term purposes (\$1.0 million). The largest uses of cash were purchases of investments (\$17.9 million).

For 2005, major sources of cash included sales of investments (\$16.3 million), and contributions restricted for long term purposes (\$1.5 million). The largest uses of cash were purchases of investments (\$17.1 million).

For 2004, major sources of cash included sales of investments (\$16.6 million), and contributions restricted for long term purposes (\$2.4 million). The largest uses of cash were purchases of investments (\$16.9 million).

LOOKING AHEAD:

While the University is expected to receive a slight increase in state appropriations and funding for capital projects on campus for fiscal year 2007, it was necessary once again to raise the tuition and fees that students will pay to receive an outstanding education at Eastern Michigan University. Because the needs of our students and programs are so great, the Foundation's role on behalf of the University remains critically important. The mission of the Foundation is to support the students, programs, services, and the educational community of the University through collaborative relationships with individuals, corporations, foundations and other organizations. While the mission remains unchanged, increased focus and energy at the Foundation is expected to continue to produce very positive results to help strengthen the University. During fiscal year 2007, the Foundation will continue its work with the University community as planning continues for a five-year comprehensive campaign, which will likely focus on scholarship support for students, program support for faculty and infrastructure needs across campus. This year of campaign planning will focus on volunteer leadership, internal readiness and communications planning.

We are encouraged by the fact that total fundraising has increased from \$5.1 million in fiscal 2005 to nearly \$7.5 million in fiscal 2006, an increase of approximately \$2.4 million or 47 percent. We are also very pleased to report an increase of approximately \$150,000 in gifts to student scholarships, both expendable and endowed over the past fiscal year, with nearly \$2.3 million received for this purpose. This increase is in an area where the Foundation has a direct impact on

the University's student population. Not only is this impact apparent from increased funds raised, but also through its growing relationship with alumni, donors and friends of the University.

In addition to the increased fundraising collections, the Foundation has raised the visibility of the University through active public engagement. Through an increased number of activities and events, both on and off campus, the Foundation seeks to broaden the University's base of supporters and extend its reach, particularly throughout the southeastern Michigan community. Dedicated alumni, donors, and friends are vital to the University's success, and in turn enhance our ability to provide much needed support to students, faculty, and programs to strengthen the University.

Draft Sept 6

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Draft Sept 6

EASTERN MICHIGAN UNIVERSITY
STATEMENTS OF NET ASSETS
As of June 30, 2006 and 2005

	<u>2006</u>	<u>2005 (as restated)</u>
ASSETS		
Current assets:		
Cash and cash equivalents (note 2)	\$ 65,676,454	\$ 40,110,314
Accounts receivable, net (note 3)	22,668,929	23,245,527
Appropriation receivable	13,846,184	13,442,980
Inventories	895,377	495,092
Deposits and prepaid expenses	1,212,229	1,336,666
Accrued interest receivable	472,330	395,514
Total current assets	<u>104,771,503</u>	<u>79,026,093</u>
Noncurrent assets:		
Student loans receivable, net (note 3)	11,304,304	11,558,648
Long-term investments (note 2)	28,256,544	48,930,142
Capital assets, net (note 4)	310,844,852	290,780,438
Other (note 5)	8,051,550	1,422,751
Total noncurrent assets	<u>358,457,250</u>	<u>352,691,979</u>
Total assets	<u>\$ 463,228,753</u>	<u>\$ 431,718,072</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt (note 5)	\$ 4,830,000	\$ 4,461,750
Accounts payable and accrued liabilities	16,137,827	11,015,697
Accrued payroll, taxes and fringe benefits	16,420,269	15,607,056
Unearned fees and deposits	7,406,044	5,695,006
Insurance and other claims payable (note 7)	3,821,438	2,646,417
Total current liabilities	<u>48,615,578</u>	<u>39,425,926</u>
Noncurrent liabilities:		
Accrued compensated absences (note 6)	2,395,597	3,259,043
Long-term debt (note 5)	149,455,000	131,035,000
Long-term unearned fees and deposits	220,000	440,000
Total noncurrent liabilities	<u>152,070,597</u>	<u>134,734,043</u>
Total liabilities	<u>\$ 200,686,175</u>	<u>\$ 174,159,969</u>
NET ASSETS (Note 9)		
Invested in capital assets, net of related debt	\$ 189,229,163	\$ 191,491,736
Restricted, expendable	43,978,484	38,037,862
Unrestricted	29,334,931	28,028,505
Total net assets	<u>\$ 262,542,578</u>	<u>\$ 257,558,103</u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY FOUNDATION
CONSOLIDATED BALANCE SHEET
JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2005)

ASSETS	2006	2005
Cash and cash equivalents	\$ 3,466,673	\$ 2,742,439
Accounts receivable	606,554	364,213
Inventories	27,343	26,514
Accrued interest and dividends	123,511	91,935
Other assets	78,544	41,134
Contributions receivable (Note 11)	261,437	759,022
Life insurance cash surrender value	254,591	232,968
Property and equipment - Net (Note 12)	2,170,565	2,235,144
Investments (Note 13)	42,136,472	37,519,576
Investments held under split-interest agreements (Note 13)	1,539,225	1,524,071
Total assets	<u>\$ 50,664,915</u>	<u>\$ 45,537,016</u>
LIABILITIES		
Accounts payable	\$ 300,590	\$ 828,211
Accrued liabilities	209,534	117,916
Mortgages payable (Note 14)	2,235,253	2,255,473
Liabilities under split-interest agreements	807,360	868,911
Total liabilities	<u>\$ 3,552,737</u>	<u>\$ 4,070,511</u>
NET ASSETS		
Unrestricted (Note 15)	\$ 2,221,075	\$ 1,930,851
Temporarily restricted (Note 15)	17,657,377	13,292,961
Permanently restricted (Note 15)	27,233,726	26,242,693
Total net assets	<u>\$ 47,112,178</u>	<u>\$ 41,466,505</u>
Total liabilities and net assets	<u>\$ 50,664,915</u>	<u>\$ 45,537,016</u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the years ended June 30 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Student tuition and fees	\$ 154,539,224	\$ 137,651,830
Scholarship allowances	(16,348,058)	(14,939,275)
Net student tuition and fees	138,191,166	122,712,555
Federal grants and contracts	6,259,063	7,216,351
Federal financial aid	13,631,569	13,181,139
State grants and contracts	448,878	639,066
State financial aid	3,249,840	3,206,349
Nongovernmental grants and contracts	5,187,691	4,140,111
Departmental activities	6,020,043	5,552,404
Auxiliary activities, net (note 1)	30,238,165	30,752,083
Other	1,790,122	1,178,359
Total operating revenues	<u>205,016,537</u>	<u>188,578,417</u>
OPERATING EXPENSES		
Instruction	98,737,298	93,035,487
Research	5,208,231	4,946,302
Public service	10,884,509	10,821,765
Academic support	20,769,445	19,602,093
Student services	23,598,925	24,718,886
Institutional support	33,823,537	32,430,309
Scholarships and fellowships	18,777,665	17,717,324
Operation and maintenance of plant	22,741,294	18,766,150
Auxiliary activities, net (note 1)	27,862,849	27,532,330
Depreciation	15,528,664	16,062,418
Other	357,411	269,259
Total operating expenses	<u>278,289,828</u>	<u>265,902,323</u>
Operating loss	<u>(73,273,291)</u>	<u>(77,323,906)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	76,764,820	79,051,199
Gifts	3,447,515	2,855,057
Investment income	3,403,355	2,538,133
Interest expense	(6,245,093)	(6,840,022)
Other	658,089	403,408
Net nonoperating revenues before capital items	<u>78,028,686</u>	<u>78,007,775</u>
Capital gifts	<u>229,080</u>	<u>57,000</u>
Total net nonoperating revenues (expenses)	<u>78,257,766</u>	<u>78,064,775</u>
Increase (Decrease) in net assets	4,984,475	740,869
NET ASSETS, beginning of year as restated (Note 9)	257,558,103	256,817,234
NET ASSETS, end of year	<u>\$ 262,542,578</u>	<u>\$ 257,558,103</u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
AND CHANGES IN NET ASSETS
YEAR ENDED June 30, 2006
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005)

	2006	2005
Revenue, Gains and Other Support		
Contributions	\$ 5,836,096	\$ 3,676,846
Investment income (Note 13)	893,825	719,461
Net realized and unrealized gains (losses) (Note 13)	3,386,456	3,061,935
ECMC revenue	1,710,934	1,744,242
Administrative and management fee (Note 9)	1,630,644	1,719,482
Other revenue	80,558	85,195
	<u>13,538,513</u>	<u>11,007,161</u>
Expenses		
Contributions to EMU:		
Expendable contributions	\$ 2,623,709	\$ 2,446,767
Contributions from endowment income	931,229	1,226,889
General and administrative - Foundation Management	510,892	418,329
Fund raising	2,187,253	2,299,243
ECMC expenses	\$ 1,542,465	\$ 1,726,773
Other	10,289	11,690
Total expenses	<u>\$ 7,805,837</u>	<u>\$ 8,129,691</u>
Increase in Net Assets before other changes in net assets	5,732,676	2,877,470
Other Changes in Net Assets		
Funds transferred from EMU	-	41,867
Change in value of split-interest agreements	<u>(87,003)</u>	<u>(24,749)</u>
Increase (Decrease) in net assets	5,645,673	2,894,588
NET ASSETS, beginning of year	41,466,505	38,571,917
NET ASSETS, end of year	<u>\$ 47,112,178</u>	<u>\$ 41,466,505</u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 153,771,937	\$ 134,899,730
Cash received from auxiliary activities	36,487,565	36,185,140
Cash received from other sources	14,072,398	6,817,433
Grants and contracts	22,322,188	29,301,163
Federal student loan funds received	146,587	272,166
Student loans granted, net of repayments	357,210	(780,678)
Scholarship allowances	(19,321,728)	(17,578,437)
Cash paid to suppliers and employees	(221,583,203)	(217,853,428)
Cash paid for financial aid	(35,704,530)	(34,123,178)
Net cash (used) by operating activities	<u>(49,451,576)</u>	<u>(62,860,089)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	76,361,616	78,962,894
Gifts received from EMU Foundation	3,655,069	3,244,576
Net cash provided by noncapital financing activities	<u>80,016,685</u>	<u>82,207,470</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments/defeasance under debt obligations	18,788,250	(3,064,778)
Interest paid	(6,245,093)	(6,840,022)
Purchases of capital assets	(35,363,998)	(17,271,649)
Other payments	(6,178,270)	250,521
Net cash provided/(used) by capital and related financing activities	<u>(28,999,111)</u>	<u>(26,925,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(712,692,938)	(447,527,561)
Proceeds from sales and maturities of investments	733,366,538	452,614,813
Interest received	3,326,542	2,533,342
Net cash provided/(used) by investing activities	<u>24,000,142</u>	<u>7,620,594</u>
Net increase/(decrease) in cash and cash equivalents	25,566,140	42,047
CASH AND CASH EQUIVALENTS, beginning of year	<u>40,110,314</u>	<u>40,068,267</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 65,676,454</u>	<u>\$ 40,110,314</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS		
Capital gifts received	<u>\$ 229,080</u>	<u>\$ 57,000</u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2006 and 2005
(continued)

	<u>2006</u>	<u>2005</u>
Reconciliation of net operating revenues (expenses) to net cash (used) by operating activities:		
Operating loss	\$ (73,273,291)	\$ (77,323,906)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation expense	15,528,664	16,062,418
Change in assets and liabilities:		
Accounts receivable, net	576,596	(91,594)
Inventories	(400,285)	196,502
Deposits and prepaid expenses	124,437	(156,611)
Student loans receivable, net	254,344	(613,238)
Accounts payable and accrued liabilities	5,122,130	1,434,573
Accrued payroll	3,946,477	238,702
Payroll taxes and accrued fringe benefits	(3,133,264)	(360,931)
Unearned fees and deposits	1,711,039	(1,662,477)
Insurance and other claims payable	1,175,021	(180,295)
Accrued compensated absences	(863,444)	(183,232)
Long-term unearned fees and deposits	(220,000)	(220,000)
Total change in assets and liabilities	8,293,051	(1,598,601)
Net cash (used) by operating activities	<u>\$ (49,451,576)</u>	<u>\$ (62,860,089)</u>

The accompanying notes are an integral part of this statement

EASTERN MICHIGAN UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006 AND 2005

	2006	2005
Cash Flows from Operating Activities		
Increase in net assets	\$ 5,645,673	\$ 2,894,588
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	140,661	168,932
Loss on sale of assets	-	541
Net realized and unrealized (gains) losses on investments	(3,386,456)	(3,061,935)
Change in value of split-interest agreements	87,003	24,749
Contributions restricted for long-term purposes	(991,033)	(1,480,237)
Changes in assets and liabilities:		
Accounts receivable	(242,341)	(35,615)
Contributions receivable	497,585	891,038
Inventories	(829)	2,665
Accrued interest and dividends	(31,576)	(2,425)
Other assets	(37,410)	9,508
Accounts payable	(527,621)	260,692
Accrued and other liabilities	91,618	17,879
Net cash used in operating activities	<u>\$ 1,245,274</u>	<u>\$ (309,620)</u>
Cash Flows from Investing Activities		
Cash surrender value of life insurance	\$ (21,623)	\$ (9,730)
Purchases of equipment	(76,081)	(24,906)
Purchases of investments	(17,868,058)	(17,066,169)
Proceeds from the sale of investments	16,622,463	16,266,789
Net cash used in investing activities	<u>\$ (1,343,299)</u>	<u>\$ (834,016)</u>
Cash Flows from Financing Activities		
Payments on mortgage and notes payable	\$ (20,220)	\$ (52,269)
Payments on split-interest agreements	(154,613)	(164,057)
Proceeds from new split-interest agreements	10,000	269,642
Proceeds from contributions restricted for long-term purposes	987,092	1,363,907
Net cash provided by financing activities	<u>\$ 822,259</u>	<u>\$ 1,417,223</u>
Net Increase in Cash and Cash Equivalents	724,234	273,587
Cash and Cash Equivalents - Beginning of Year	<u>2,742,439</u>	<u>2,468,852</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 3,466,673</u></u>	<u><u>\$ 2,742,439</u></u>
Supplemental Cash Flow Information - Cash paid (refunded) for:		
Interest	\$ 120,073	\$ 133,012
Income Taxes	20,095	(8,639)

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies:

Reporting Entity – Eastern Michigan University ("University") is an institution of higher education and is considered to be a component unit of the State of Michigan ("State") because its Board of Regents is appointed by the Governor of the State. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations, grants from various state agencies and payments to the State retirement program for certain University employees.

The University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, in 2004. As such, the Eastern Michigan University Foundation ("Foundation") financial statements, footnotes, and management's discussion and analysis have been discretely incorporated into the University's financial statements, footnotes, and management's discussion and analysis. Footnotes of the Foundation are found on pages 39 to 45 of this report.

Investments – In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value.

The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis to focus on the university as a whole, with resources classified for accounting and reporting purposes into four net asset categories according to externally imposed restrictions.

The four required net asset categories are as follows:

- Invested in capital assets, net of related debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted, nonexpendable - Net assets subject to externally-imposed stipulations that they be maintained permanently by the university. These assets are recorded in the Eastern Michigan University Foundation financial statements as permanently restricted net assets.
- Restricted, expendable - Net assets whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the university pursuant to those stipulations or that expire by the passage of time.

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

- Unrestricted - Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Regents or may otherwise be limited by contractual agreements with outside parties. (Substantially all unrestricted net assets are designated for academic and research programs, capital projects and other initiatives.)

Summary of Significant Accounting Policies – Investments in marketable securities are carried at fair market value as established by the major securities markets. Investment income includes realized and unrealized gains and losses on investments, interest income and dividends. Inventories are stated at the lower of cost (first in, first out basis) or market. Capital assets are recorded at cost or, if acquired by gift, at the fair market value as of the date of donation. Retirement benefit costs are funded as accrued. Bond issuance costs are amortized using the effective interest method over the maturities of the related bonds.

State appropriations are recognized when received or made available. Restricted funds are recognized as revenue only to the extent expended. Gifts and interest on student loans are recognized when received. Bond issuance costs are capitalized and expensed over the shorter of the refunding period or terms of the new debt.

Unearned fees and deposits primarily include deferred tuition and fee revenue for future semesters, exclusivity contract deferred revenue, and agency fund balances held in custody for others.

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.

For the purposes of the Statements of Cash Flows, highly liquid investments, excluding noncurrent investments, with an original maturity of three months or less are considered cash equivalents. The University follows the “business-type” activities reporting requirements of GASB Statement No. 34. The University does not currently have any direct investments in Eurodollars or any other foreign entity so there is no direct foreign currency risk. The Vanguard mutual fund may contain investments in foreign companies, but the overall foreign currency risk is minimal.

Accrued compensated absences include 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. These amounts are approximately \$400,000 and \$2,680,000 for June 30, 2006, respectively, and approximately \$400,000 and \$2,930,000 for June 30, 2005, respectively. Previously these amounts were recorded exclusively in accrued compensated absences.

In August 2004, the University began participating in the United States Department of Education Stafford loan lending program in partnership with Sallie Mae. The University

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

ended the program on August 25, 2005. The University approved and financed student educational loans that were packaged and then sold to Sallie Mae. As of June 30, 2006, the gross amount of loans to students was approximately \$13.2 million. The program was backed by Sallie Mae with a \$15 million line of credit. The receivable for the line of credit and associated liability for the University as of June 30, 2006 were \$0. Gross revenue for fiscal 2006 was negligible.

Auxiliary activities consist of the following as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>		
Auxiliary Activities, Gross	\$ 36,868,151	\$ 36,736,221
Less: Internal Sales	(3,656,316)	(3,344,976)
Less: Scholarship Allowances	(2,973,670)	(2,639,162)
Auxiliary Activities, Net	<u>\$ 30,238,165</u>	<u>\$ 30,752,083</u>
<u>Operating Expenses:</u>		
Auxiliary Activities, Gross	\$ 34,492,835	\$ 33,516,468
Less: Internal Sales	(3,656,316)	(3,344,976)
Less: Scholarship Allowances	(2,973,670)	(2,639,162)
Auxiliary Activities, Net	<u>\$ 27,862,849</u>	<u>\$ 27,532,330</u>

Certain prior year balances have been reclassified to conform with the current year presentation.

(2) Cash and Cash Equivalents:

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, separate managed funds and other pooled funds.

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

Cash and cash equivalents consist of the following as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Disbursement accounts	\$ 9,699,340	\$ 6,343,082
U.S. Treasuries/Agencies	47,858,153	25,844,002
Mutual Funds	8,118,961	7,923,230
	<u>\$ 65,676,454</u>	<u>\$ 40,110,314</u>

Cash and cash equivalents include mutual funds and disbursement funds that allow for daily withdrawals. The mutual funds and disbursement funds have short-term to intermediate-term durations and are stated at quoted market value. The U.S. Treasuries and agencies have short-term durations and are also stated at quoted market value. All other cash and cash equivalents are stated at amortized cost, which approximates market.

All cash and cash equivalents are held in the University's name as of June 30, 2006 and 2005. As of June 30, 2006, the banks reported balances in the disbursement accounts at \$8,088,713. Of these balances \$217,802 was covered by federal depository insurance and \$7,870,911 was uninsured and uncollateralized. As of June 30, 2005, the banks reported balances in the disbursement accounts at \$4,779,501. Of these balances, \$208,810 was covered by federal depository insurance and \$4,570,691 was uninsured and uncollateralized.

Long-term investments consist of Mutual Funds and U.S. Treasuries/Agencies valued at \$28,256,544 and \$48,930,142 as of June 30, 2006 and 2005, respectively.

Interest Risk – The University does not have a formal policy limiting investment maturities as a means of managing its exposure to fair value losses arising from interest rates. Investments may be made in external mutual funds, separate managed funds and/or other pooled funds with investment policies which match the University's credit and market risk tolerance and have acceptable risk management procedures as approved and monitored by the University investment committee. The neutral position of an external intermediate term cash pooled fund and each of the managers' portfolios will be the average maturity and duration of the Merrill Lynch 1-3 Year Treasury Index (in the range of two years). Typically the weighted average maturities of the managers' portfolios will fall between one and three years. Durations are generally in the two-year range.

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

Investment maturities in years are reflected below as of June 30, 2006 and 2005, respectively:

June 30, 2006:

Investment Maturities (in Years)

<u>Deposits:</u>	<u>Fair Market Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Over 10</u>	<u>Total</u>
Time Deposits	\$ 9,699,340	9,699,340				\$ 9,699,340
Short-term notes	52,160,049	52,160,049				52,160,049
Government Securities	23,954,648	6,382,976	17,530,350		41,322	23,954,648
Mutual Funds	8,118,961		8,118,961			8,118,961
Total Investments	\$ 93,932,998	68,242,365	25,649,311	0	41,322	\$ 93,932,998

Less Investments reported as

Cash on Statement of Net Assets

(65,676,454)

Total Investments

\$ 28,256,544

As Reported on the Statement of

Net Assets

Noncurrent investments

28,256,544

Total Investments

\$ 28,256,544

June 30, 2005:

Investment Maturities (in Years)

<u>Deposits:</u>	<u>Fair Market Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Over 10</u>	<u>Total</u>
Time Deposits	\$ 6,343,082	6,343,082				\$ 6,343,082
Short-term notes	29,829,651	29,829,651	0			29,829,651
Government Securities	44,944,493	20,562,703	24,335,428		46,362	44,944,493
Mutual Funds	7,923,230		7,923,230			7,923,230
Total Investments	\$ 89,040,456	56,735,436	32,258,658	0	46,362	\$ 89,040,456

Less Investments reported as

Cash on Statement of Net Assets

(40,110,314)

Total Investments

\$ 48,930,142

As Reported on the Statement of

Net Assets

Noncurrent investments

48,930,142

Total Investments

\$ 48,930,142

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

Credit Risk— Investment policies for cash and short-term Investments as set forth by the Board of Regents authorize the University to invest in obligations of, or fully guaranteed by, the United States of America and/or obligations of federal or state agencies rated AA or better by Moody's Investors Service (or equivalent rating). Obligations of commercial banks, bank holding companies, savings banks, savings and loan associations, and corporations are limited to those rated equal to or better than the following ratings of these or equivalent sources:

	<u>One Year or Less</u>	<u>Greater Than One Year</u>
Duff & Phelps, Inc	D-1/A	D-1/AA
Fitch Investors Service Inc	F-1/A	F-1/AA
Moody's Investor Service	P-1/A	P-1/AA
Standard & Poor's Corp	A-1/A	A-1/AA
Thomson BankWatch	B/C	B/C

In the event of a split rating in which one of the ratings falls below the minimum established above, the investment is disqualified. Investments are generally made in the following securities: Banker's Acceptances, Corporate Bonds, Corporate Notes, Certificates of Deposit, Commercial Paper, Deposit Notes, and Eurodollars in countries rated 1 or better by Thomson BankWatch (or equivalent rating). The University does not currently have any direct investments in Eurodollars or any other foreign entity so there is no direct foreign currency risk. The Vanguard mutual fund may contain investments in foreign companies, but the overall foreign currency risk is minimal.

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

Credit Risk for investments as of June 30, 2006:

<u>Instrument</u>	<u>Fair Market Value</u>	Rating:		
		<u>Moody's</u>	<u>Standard & Poors</u>	<u>Fitch</u>
Federal Home Loan Bank	\$99,375.00	Aaa	AAA	n/a
Hopkinsville Kentucky IDR	260,000.00	n/a	n/a	n/a
MKO Properties, LLC	2,500,000.00	n/a	n/a	n/a
Greenpoint Taxable	5,050,049.00	Aaa	n/a	n/a
Nel-Net Taxable Student Loans	6,000,000.00	n/a	AAA	AAA
Nel-Net Taxable Student Loans	3,300,000.00	n/a	AAA	AAA
Educational Funding South	1,700,000.00	Aaa	n/a	n/a
Access Group Loans	3,000,000.00	Aaa	AAA	AAA
Mississippi County Ark.	4,450,000.00	n/a	A+/A-1	n/a
Educational FDG Of The South	2,500,000.00	Aaa	AAA	AAA
Illinois Student Loans	2,000,000.00	Aaa	n/a	AAA
Federal Home Loan Mtg Corp	1,548,713.50	Aaa	AAA	n/a
Federal Home Loan Bank	1,441,835.45	Aaa	AAA	n/a
Federal Home Loan Mtg Corp	826,516.40	Aaa	AAA	n/a
Federal Home Loan Mtg Corp	2,049,512.50	Aaa	AAA	AAA
Federal Natl Mtg Assn Strips	417,022.75	Aaa	AAA	n/a
SLM Student Loan Trust	2,500,000.00	Aaa	AAA	AAA
SLM Student Loan Trust	5,000,000.00	Aaa	AAA	AAA
Union Financial Taxable S.L.	2,300,000.00	Aaa	AAA	n/a
Nel-Net Taxable Student Loans	5,000,000.00	Aaa	AAA	n/a
Nel-Net Taxable Student Loans	5,000,000.00	n/a	AAA	AAA
Educational Funding South	1,600,000.00	Aaa	AAA	n/a
Federal Home Loan Bank	5,808,780.00	Aaa	AAA	n/a
Federal Home Loan Bank	2,948,430.00	Aaa	AAA	n/a
Federal Home Loan Bank	2,953,140.00	Aaa	AAA	n/a
Federal National Mortgage Assn	5,820,000.00	Aaa	AAA	AAA
U.S Treasury Stripped Bonds	41,322.00	n/a	AAA	n/a
Vanguard Fxd Inc Sec Sh Tm	8,118,961.10	n/a	n/a	n/a
Total	<u>\$84,233,657.70</u>			

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

Credit Risk for investments as of June 30, 2005:

Instrument	Fair Market Value	Rating:		
		Moody's	Standard & Poors	Fitch
US Treasury Stripped Bonds	46,362	n/a	n/a	n/a
Federal National Mortgage Association	6,001,860	Aaa	AAA	AAA
Federal Home Loan Bank	3,009,390	Aaa	AAA	n/a
Federal Home Loan Bank	3,002,820	Aaa	AAA	n/a
Federal Home Loan Bank	6,005,640	Aaa	AAA	n/a
Education Loans Inc	3,000,000	Aaa	n/a	AAA
Education Loans Inc	2,500,000	WR	n/a	AAA
Education Loans Inc	5,000,000	Aaa	n/a	AAA
Chela Financial USA Inc	3,400,000	Aaa	n/a	AAA
Education Loans Inc	1,600,000	Aaa	n/a	AAA
Nel-Net Taxable Student Loans	5,000,000	n/a	AAA	AAA
Vanguard Fixed Income Sec Short Term	7,923,231	n/a	n/a	n/a
Federal Home Loan Mortgage Corp	1,917,806	Aaa	AAA	n/a
Federal Home Loan Mortgage Corp	1,533,818	Aaa	AAA	n/a
Federal Home Loan Bank	1,440,492	Aaa	AAA	n/a
Federal Home Loan Bank	2,191,750	Aaa	AAA	AAA
Federal Home Loan Bank	1,877,244	Aaa	AAA	n/a
Federal Farm Cr Banks	1,953,373	Aaa	AAA	n/a
Federal Home Loan Mortgage Corp	797,918	Aaa	AAA	n/a
Federal Home Loan Mortgage Corp	1,952,556	Aaa	AAA	AAA
Federal Home Loan Mortgage Corp	1,985,025	Aaa	AAA	AAA
Federal Home Loan Mortgage Corp	2,038,547	Aaa	AAA	AAA
Federal National Mortgage Assn Strips	1,641,658	Aaa	AAA	n/a
Federal National Mortgage Assn Strips	403,193	Aaa	AAA	n/a
Federal National Mortgage Assn Disct NT	1,965,527	Aaa	n/a	n/a
GECC CP	1,829,651	P-1	A-1+	n/a
Educational FDG Of The South	2,500,000	Aaa	AAA	AAA
Chela Financial USA, Inc	5,000,000	Aaa	n/a	AAA
Federal National Mortgage Assn	1,779,250	Aaa	AAA	AAA
Fannie Mae Global	1,556,263	Aaa	AAA	AAA
Federal Home Loan Bank Tap Issue	1,742,250	Aaa	AAA	n/a
Federal Home Loan Bank	101,750	Aaa	AAA	n/a
Total	<u>\$82,697,374</u>			

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

Custodial Credit Risk – The University investments are all in the name of the University. Therefore, the custodial risk is limited.

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 direct placements are to be sufficiently diversified and provides that no more than 10% of its assets can be in any particular issue except for obligations issued or guaranteed by the U.S. Government, Federal Agencies and Government-sponsored corporations. In addition, any single investment in an intermediate-term fund shall be limited to 25% of the total portfolio value, and any investment in a single short-term investment fund shall be limited to 50% of the total portfolio value. The University is in compliance with its concentration of credit risk policy. The following investments comprise more than 5% of the total investments portfolio as of June 30, 2006 and 2005:

June 30, 2006:

<u>Instrument</u>	<u>Fair Market Value</u>
Mississippi County Ark.	\$ 4,450,000
Nel-Net Taxable Student Loans	5,000,000
Nel-Net Taxable Student Loans	5,000,000
SLM Student Loan Trust	5,000,000
Greenpoint Taxable	5,050,049
Federal Home Loan Bank	5,808,780
Federal National Mortgage Assn	5,820,000
Nel-Net Taxable Student Loans	6,000,000
Vanguard Fxd Inc Sec Sh Tm	8,118,961
Total	<u>\$ 50,247,790</u>

June 30, 2005:

<u>Instrument</u>	<u>Fair Market Value</u>
Chela Financial USA, Inc	\$ 5,000,000
Education Loans Inc	5,000,000
Nel-Net Taxable Student Loans	5,000,000
Federal Home Loan Bank	6,005,640
Federal National Mortgage Association	6,001,860
Vanguard Fixed Income Sec Short Term	7,923,231
Total	<u>\$ 34,930,731</u>

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

(3) Accounts Receivable:

Accounts receivable consist of the following, as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005 (as restated)</u>
Sponsor accounts	\$ 5,359,723	\$ 4,291,803
Student accounts	13,052,093	16,187,269
Charter school appropriation	4,488,362	4,581,064
Third party tuition	685,444	825,334
Other	2,070,595	2,520,992
	<u>25,656,217</u>	<u>28,406,462</u>
Less allowances for possible collection lo	(2,987,288)	(5,160,935)
Accounts receivable, net	<u>\$ 22,668,929</u>	<u>\$ 23,245,527</u>

In addition, the University has student loans receivable of \$11,304,304 and \$11,558,648 net of the related allowance of \$358,666 and \$243,520, as of June 30, 2006 and 2005, respectively.

(4) Capital Assets:

Capital assets consist of the following as of June 30, 2006 and 2005:

	<u>2005</u>	<u>Additions/ Transfers</u>	<u>Retirements</u>	<u>2006</u>
Land	\$ 10,589,978	\$ -	\$ -	\$ 10,589,978
Construction-in-progress	12,195,863	39,269,271	(12,195,863)	39,269,271
Total Nondepreciable	<u>22,785,841</u>	<u>39,269,271</u>	<u>(12,195,863)</u>	<u>49,859,249</u>
Infrastructure	30,022,625	948,490	-	30,971,115
Leasehold improvements	3,408,874	-	-	3,408,874
Buildings	329,208,977	1,642,484	(661,350)	330,190,111
Equipment	116,561,646	6,202,342	(1,829,177)	120,934,811
Total Depreciable	<u>479,202,122</u>	<u>8,793,316</u>	<u>(2,490,527)</u>	<u>485,504,911</u>
	<u>501,987,963</u>	<u>48,062,587</u>	<u>(14,686,390)</u>	<u>535,364,160</u>
Accumulated depreciation	(211,207,525)	(15,528,664)	2,216,881	(224,519,308)
	<u>\$ 290,780,438</u>	<u>\$ 32,533,923</u>	<u>\$ (12,469,509)</u>	<u>\$ 310,844,852</u>

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

	<u>2004</u>	<u>Additions/ Transfers</u>	<u>Retirements</u>	<u>2005</u>
Land	\$ 10,589,978	\$ -	\$ -	\$ 10,589,978
Construction-in-progress	10,462,972	12,195,863	(10,462,972)	12,195,863
Total Nondepreciable	21,052,950	12,195,863	(10,462,972)	22,785,841
Infrastructure	25,300,294	4,722,331	-	30,022,625
Leasehold improvements	3,408,874	-	-	3,408,874
Buildings	325,402,680	4,996,727	(1,190,430)	329,208,977
Equipment	111,761,902	6,098,673	(1,298,929)	116,561,646
Total Depreciable	465,873,750	15,817,731	(2,489,359)	479,202,122
	486,926,700	28,013,594	(12,952,331)	501,987,963
Accumulated depreciation	(197,412,493)	(16,062,418)	2,267,386	(211,207,525)
	\$ 289,514,207	\$ 11,951,176	\$ (10,684,945)	\$ 290,780,438

Depreciation is recognized on a straight-line basis over the estimated useful life of the asset, as follows:

<u>Classification</u>	<u>Life</u>
Infrastructure	12 to 60 years
Leasehold improvements	12 to 20 years
Buildings	40 to 60 years
Equipment	5 to 10 years

The University has encumbrances of \$9,385,899 on various construction projects in progress as of June 30, 2006.

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

(5) Long-term Debt:

Long-term debt consists of the following as of June 30, 2006 and 2005:

	Interest			<u>Outstanding Principal</u>		
	<u>Rates</u>	<u>Maturity</u>	<u>2005</u>	<u>Additions</u>	<u>Retirements/ defeasance</u>	<u>2006</u>
Refunding Bonds						
of 2006	variable	2007-2036	\$ -	\$85,680,000	\$ -	\$ 85,680,000
Refunding Bonds						
of 2003A	2.00 - 5.00	2006-2014	53,000,000	-	45,635,000	7,365,000
General Revenue Bonds						
of 2002B	3.00-5.00	2006-2013	6,395,000	-	4,835,000	1,560,000
General Revenue Bonds						
of 2002A	5.8	2006-2014	15,485,000	-	1,980,000	13,505,000
General Revenue Bonds						
of 2001	variable	2006-2027	40,620,000	-	85,000	40,535,000
General Revenue Bonds						
of 2000B	4.50-5.875	2006-2011	12,095,000	-	10,665,000	1,430,000
General Revenue Bonds						
of 2000	5.00-6.00	2006-2024	7,260,000	-	3,050,000	4,210,000
General Revenue Bonds						
of 1997	3.60-5.50	2006	100,000	-	100,000	-
Bank One	4.96	2006	541,750	-	541,750	-
			135,496,750	85,680,000	66,891,750	154,285,000
Less current portion long-term debt			4,461,750			4,830,000
Long-term debt			<u>\$ 131,035,000</u>			<u>\$149,455,000</u>

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

	Interest Rates	Maturity	Outstanding Principal			
			2004	Additions	Retirements/ defeasance	2005
Refunding Bonds						
of 2003A	2.00 - 5.00	2006-2033	\$ 53,000,000	\$ -	\$ -	\$ 53,000,000
General Revenue Bonds						
of 2002B	3.00-5.00	2005-2026	6,580,000	-	185,000	6,395,000
General Revenue Bonds						
of 2002A	5.8	2005-2014	17,455,000	-	1,970,000	15,485,000
General Revenue Bonds						
of 2001	variable	2005-2027	40,700,000	-	80,000	40,620,000
General Revenue Bonds						
of 2000B	4.50-5.875	2005-2030	12,335,000	-	240,000	12,095,000
General Revenue Bonds						
of 2000	5.00-6.00	2005-2024	7,700,000	-	440,000	7,260,000
General Revenue Bonds						
of 1997	3.60-5.50	2005-2006	200,000	-	100,000	100,000
Bank One	4.96	2005	591,000	-	49,250	541,750
Other	Various	2005	528	-	528	-
			138,561,528	\$ -	\$ 3,064,778	135,496,750
Less current portion long-term debt			3,064,778			4,461,750
Long-term debt			<u>\$ 135,496,750</u>			<u>\$131,035,000</u>

On February 1, 2006, the University entered into a thirty year interest rate swap agreement with a single counterparty for \$85,680,000 in connection with the issuance of variable rate General Revenue Bonds, Series 2006. The 2006 bonds were issued to finance project costs and to refund and defease in-substance \$2,595,000 of General Revenue Bonds, Series 2000, \$10,415,000 of General Revenue Bonds, Series 2000B, \$4,635,000 of General Revenue Bonds, Series 2002B, and \$44,785,000 of General Revenue Bonds, Series 2003. The intention of the swap was to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate of 3.317 percent. The stated maturity date of the swap is June 1, 2036. At June 30, 2006, the total notional principal amount outstanding under this agreement was \$85,680,000. The refunding resulted in a reduction of total debt service payments of approximately \$10.2 million and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$6,591,394. Bond issuance costs of \$511,660 and \$6,450,709 in escrow for future interest expenses net of accumulated amortization of \$0 at June 30, 2006, for the 2006 bonds are included in other assets in the accompanying financial statements.

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.317% to the counterparty to the swap. In return, the counterparty owes the University interest based on 62% of the London Interbank Offered Rate (LIBOR) rate plus 20 basis points. Only the net difference in interest payments is actually exchanged with the counterparty. The University continues to pay interest to the bondholders at the variable rate provided by the bonds, however, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. The University will be exposed to variable rates only if the counterparty to the swap defaults or if the swap is terminated. The University can terminate the swap at its sole option, on any date after June 1, 2013. A termination of the swap agreement may also result in the University paying or receiving a termination payment. When the swap was initiated, the University neither received a payment from nor made a payment to the counterparty.

The swap exposes the University to basis risk should the relationship between LIBOR and the variable interest rates on the bonds diverge, changing the effective synthetic rate of the bonds. As of June 30, 2006, the variable interest rate was 4.04%, whereas 62 percent of one-month LIBOR plus 20 basis points was 3.507%.

As of June 30, 2006, the swap agreement had a mark to market fair value of approximately \$3,560,000. The swap counterparty was rated Aa3 and A+ by Moody's and Standard & Poor's, respectively, as of June 30, 2006.

If the University's credit rating falls below A3, and if the fair value of the swap exceeds (\$10,000,000), the University will be obliged to collateralize the fair value of the swap with a minimum transfer amount of \$100,000 with cash or U.S. governmental securities. Collateral would be posted with a third-party custodian. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetic rate and the University may be required to pay an amount equal to the swap's fair value, if it is negative.

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

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

Variable Rate Bonds Associated with 2006 Bonds Swap Agreement

Fiscal Year	Principal	Interest	Interest Rate Swaps-Net	Total
2007	895,000	3,461,472	(162,792)	4,193,680
2008	690,000	3,425,314	(161,092)	3,954,222
2009	725,000	3,397,438	(159,781)	3,962,657
2010	755,000	3,368,148	(158,403)	3,964,745
2011	770,000	3,337,646	(156,969)	3,950,677
2012-2016	10,230,000	15,886,492	(747,137)	25,369,355
2017-2021	17,060,000	13,149,190	(618,403)	29,590,787
2022-2026	17,530,000	9,772,962	(459,620)	26,843,342
2027-2031	25,285,000	5,483,896	(257,906)	30,510,990
2036	11,740,000	1,909,512	(89,804)	13,559,703
Totals	85,680,000	63,192,070	(2,971,907)	145,900,163

In February 2003, the University issued \$53,000,000 of General Revenue and Refunding Bonds, Series 2003A. The bonds are secured by general revenues of the University. Total proceeds of the debt issue, including the net original issue premium of \$1,071,869 were \$54,071,869. Bond proceeds of \$12,800,428 were used to refund General Revenue Bonds, Series 1993. The remaining proceeds will be used to construct a new Student Center and renovate the existing McKenny Union building. The refunding resulted in an accounting gain of \$106,335 and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$104,543. Bond issuance costs of \$241,385 net of accumulated amortization of \$28,162 at June 30, 2006, are included in other assets in the accompanying financial statements.

In March 2002, the University issued \$21,100,000 of General Revenue Bonds, Series 2002A, to refund the \$20,615,000 1992 General Revenue Refunding Bonds. The bonds are secured by general revenues of the University. The refunding resulted in an accounting gain of \$662,298 and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,159,108. Bond issuance costs of \$285,616 net of accumulated amortization of \$42,842 at June 30, 2006, are included in other assets in the accompanying financial statements.

In March 2002, the University issued \$6,860,000 of General Revenue Bonds, Series 2002B, to fund capital additions and improvements. The bonds are secured by general revenues of the University. Bond issuance costs of \$185,556 net of accumulated amortization of \$27,833 at June 30, 2006, are included in other assets in the accompanying financial statements.

On August 29, 2001, the University entered into a twenty-six year interest rate swap agreement with a single counterparty for \$41,395,000 in connection with the issuance of variable rate 2001 Series General Revenue Bonds. The 2001 bonds were issued to refund and defease in-substance \$38,460,000 of the General Revenue Bonds of 1997. The

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

intention of the swap was to effectively change the University's variable interest rate on the bonds to a synthetic fixed rate of 4.72 percent. The stated maturity date of the swap is June 1, 2027. At June 30, 2006, the total notional principal amount outstanding under this agreement was \$40,535,000.

Based on the swap agreement, the University owes interest calculated at a fixed rate of 4.72% to the counterparty to the swap. In return, the counterparty owes the University interest based on two indices: (1) the counterparty pays 68% of the London Interbank Offered Rate (LIBOR) rate on 60% of the notional amount; and (2) the counterparty pays the Bond Market Association (BMA) Index rate on 40% of the notional amount. Only the net difference in interest payments is actually exchanged with the counterparty. The University continues to pay interest to the bondholders at the variable rate provided by the bonds, however, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. The University will be exposed to variable rates only if the counterparty to the swap defaults or if the swap is terminated. The University can terminate the swap at its sole option, on any date after December 1, 2006. A termination of the swap agreement may also result in the University paying or receiving a termination payment. When the swap was initiated, the University received a payment from the counterparty of \$1,236,618. Bond issuance costs of \$361,027 and \$1,187,007 net of accumulated amortization of \$54,154 and \$1,187,007 at June 30, 2006, for the 2001 and 1997 Bonds, respectively, are included in other assets in the accompanying financial statements.

The swap exposes the University to basis risk should the relationship between LIBOR and the variable interest rate on the bonds diverge, changing the effective synthetic rate of the bonds. As of June 30, 2006, the variable interest rate was 4.04 percent, whereas 68 percent of one-month LIBOR was 3.627 percent. The University is also subject to basis risk if the rate on the bonds diverges from the BMA Index. As of June 30, 2006, the BMA Index rate was 3.97%.

As of June 30, 2006, the swap agreement had a mark to market fair value of approximately (\$2,753,000). The swap counterparty was rated Aaa and AAA by Moody's and Standard & Poor's, respectively, as of June 30, 2006.

If the University's credit rating falls below A3, and if the fair value of the swap exceeds (\$2,000,000), the University will be obliged to collateralize the fair value of the swap with a minimum transfer amount of \$100,000 with cash or U.S. governmental securities. Collateral would be posted with a third-party custodian. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetic rate and the University may be required to pay an amount equal to the swap's fair value, if it is negative.

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

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

Variable Rate Bonds Associated with 2001 Bonds Swap Agreement

Fiscal Year	Principal	Interest	Interest Rate Swaps-Net	Total
2007	195,000	1,637,614	782,326	2,614,940
2008	200,000	1,629,736	778,562	2,608,298
2009	205,000	1,621,656	774,702	2,601,358
2010	210,000	1,613,374	770,746	2,594,120
2011	220,000	1,604,890	766,693	2,591,583
2012-2016	6,310,000	7,708,724	3,682,633	17,701,357
2017-2021	12,920,000	5,711,954	2,728,731	21,360,685
2022-2026	16,475,000	2,828,606	1,351,290	20,654,896
2026-2027	3,800,000	153,520	73,340	4,026,860
Totals	40,535,000	24,510,074	11,709,023	76,754,097

In November 2000, the University issued \$12,780,000 of General Revenue Bonds, Series 2000B, to fund new residence hall facilities. The bonds are secured by general revenues of the University. Bond issuance costs of \$63,145 net of accumulated amortization of \$13,681 at June 30, 2006 are included in other assets in the accompanying financial statements.

In February 2000, the University issued \$9,555,000 of General Revenue Bonds, Series 2000 to partially defease in-substance the Series 1992 General Revenue Bonds and to fund various capital additions and improvements. The bonds are secured by general revenues of the University. Bond issuance costs of \$145,867 net of accumulated amortization of \$26,743 at June 30, 2006 are included in other assets in the accompanying financial statements.

In May 1992, the University issued \$45,125,000 of General Revenue Refunding Bonds together with \$6,405,583 of trustee held reserves to defease in-substance, \$46,696,000 of Housing and Student Fee Bonds outstanding at that time.

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, 2006 and 2005, the aggregate amount of outstanding principal on all bonds which have been defeased is \$103,581,752 and 41,943,057, 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.

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

The obligations are generally callable. The future amounts of principal and interest payments required by the debt agreements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	4,830,000	6,355,212	11,185,212
2008	4,665,000	6,158,733	10,823,733
2009	4,865,000	5,930,179	10,795,179
2010	4,800,000	5,699,908	10,499,908
2011	4,600,000	5,468,479	10,068,479
2012 - 2016	24,560,000	24,073,451	48,633,451
2017 - 2021	30,640,000	18,482,700	49,122,700
2022 - 2026	34,500,000	11,958,893	46,458,893
2027 - 2031	29,085,000	5,027,332	34,112,332
2032 - 2036	11,740,000	901,368	12,641,368
Total	<u>\$ 154,285,000</u>	<u>\$ 90,056,255</u>	<u>\$ 244,341,255</u>

(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"). As of January 1, 1996, the University no longer offered participation in MPERS to new employees due to the Michigan Public Act 272 of 1995 which enabled the University to withdraw from MPERS.

MPERS is a cost sharing multiple employer noncontributory defined benefit retirement plan through the Michigan State Employees' Retirement System. The University's costs for the MPERS plan include 1) contributions based on member payroll to fund normal pension costs, 2) contributions to fund a portion of the plan's unfunded actuarial accrued liability, and 3) contributions for retiree health insurance, at a fixed dollar amount determined annually by MPERS.

The cost of the MPERS plan allocated to the University, all of which was contributed in the applicable year, was approximately \$5,242,000, \$4,798,000, and \$4,592,000 for the years ended June 30, 2006, 2005, and 2004, respectively. Further pension data audited by the Office of the Auditor General of the State of Michigan, for the Michigan State Employees' Retirement System is included in the State of Michigan's Comprehensive Annual Financial Report.

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. For the

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

years ended June 30, 2006, 2005, and 2004 the University contributed approximately \$9,447,000, \$9,454,000 and \$9,255,000, respectively, to the TIAA-CREF plan. The University has no liability beyond its own contribution under the TIAA-CREF plan.

In addition, the University provides post-retirement health care benefits to certain eligible retirees. The benefits are provided through a reimbursement of insurance premiums paid by such eligible retirees. The University recognizes the cost of providing these benefits on a pay-as-you-go basis. Expenses incurred for the years ended June 30, 2006, 2005, and 2004 were approximately \$111,000, \$98,000, and \$63,000, respectively.

Certain organizations are required to record the estimated present value of post-retirement benefits as a liability in their financial statements. The University is not required to do so at this time. Based on actuarial assumptions and presuming a continuation of the current level of benefits, the value of those benefits is estimated at \$4.8 million.

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*. The liability is approximately \$2,126,000 and \$3,640,000 as of June 30, 2006 and 2005, respectively. Approximately \$400,000 is included in accrued payroll, taxes, and fringe benefits for the years ended June 30, 2006 and 2005, respectively. The remaining portion is included in accrued compensated absences.

(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. Also included in this liability is a provision for potential tax liabilities.

The University participates in the Michigan Universities Self-Insurance Corporation ("MUSIC"), which provides indemnity to members against comprehensive general liability, errors and omissions, and property losses commonly covered by insurance. MUSIC also provides risk management and loss control services and programs.

Loss coverages are structured on a three layer basis with each member retaining a portion of its losses, MUSIC covering the second layer and commercial carriers covering the third. Comprehensive general liability coverage is provided on an occurrence basis. Errors and omissions and property coverage are provided on a claims-made basis.

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

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

(continued)

(8) Related Party Transactions:

The Foundation, located in Ypsilanti, Michigan, is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundation's financial information in the University's financial reporting entity for these differences.

The Foundation is a legally separate, tax-exempt component unit of the University that acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its students and programs. The Foundation receives, holds, invests, and administers funds for the purpose of contributing to and making expenditures on behalf of the University. The board of the Foundation is self-perpetuating and consists of alumni and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the university and is discretely presented in the University's financial statements. In order to support fund-raising activities on behalf of the University, the University will pay to the Foundation an amount to be determined annually. For the years ended June 30, 2006 and 2005, the amounts paid to the Foundation were \$ 1,630,644 and \$1,719,482, respectively.

As of June 30, 2006 and 2005, assets totaling \$50,664,915 and \$45,537,016 , respectively, are held by the Foundation. Amounts transferred, both cash and in-kind, to the University from the Foundation are included in gifts and capital grants and gifts in the accompanying University financial statements and totaled \$3,884,149 and \$3,301,576 at June 30, 2006 and 2005, respectively.

Fund-raising efforts of the Foundation result in both currently collectible gifts and pledged gifts for the benefit of the University that are recorded as revenue in the Foundation's financial statements but are collectible over a period of years. The Foundation's fund-raising efforts also result in current gifts made directly to the University that are not reported as contributions by the Foundation. Total fund-raising collections for the year June 30, 2006 were as follows:

EASTERN MICHIGAN UNIVERSITY

NOTES TO FINANCIAL STATEMENTS (continued)

	<u>2006</u>	<u>2005</u>
Accrual basis contribution revenue	\$ 5,836,096	\$ 3,676,846
Gifts-in-kind made directly to University	1,128,757	298,676
Current collections on deferred gifts in excess of gift deferrals and amortization	457,585	891,038
Current collections on split-interest agreements in excess of recorded revenue	6,059	153,311
Loss on sale of stock gifts	0	778
Gifts written off from prior fiscal years	0	40,000
Gifts deposited directly at University	17,946	61,463
Total fund-raising collections	<u>\$ 7,446,443</u>	<u>\$ 5,122,112</u>

Fundraising Expenses:

The Foundation includes Eagle Crest Management Corporation (ECMC), a wholly owned for-profit subsidiary of the Foundation, which was incorporated for the purpose of providing food and beverage and other management services. Effective July 1, 2001, the University renegotiated its 1996 joint operating agreement with the Foundation, resulting in separate operating agreements with the Foundation and ECMC. Under the agreement between ECMC and the University, ECMC continues to have the responsibility for the management of the Eagle Crest Golf Club (ECGC) and Eagle Crest Conference Center (ECCC). ECMC receives management fees from the University for the services it provides under the agreement. The fees are composed of a fixed fee of \$28,900 (subject to future increases for changes in the Consumer Price Index), plus 30 percent of net income as defined in the agreement. Total management fee revenue recognized by ECMC during the years ended June 30, 2006 and 2005 was \$74,008 and \$69,878, respectively.

The Foundation also includes Planned Real Estate Corporation (PREC), a wholly owned nonprofit subsidiary of the Foundation, which was incorporated as a title holding company for the purpose of owning and managing real estate donated to the Foundation.

(9) Prior Period Adjustments:

Net Assets as of July 1, 2004 have been restated by \$1,989,730 to correct the following errors:

	<u>(Decrease) to Net Assets</u>
Adjust accounts receivable for conversion-related misstatements	\$ <u>(1,989,730.00)</u>
Total decrease in net assets	\$ <u>(1,989,730.00)</u>

The adjustment had no effect on the change in net assets for 2006 or 2005.

EASTERN MICHIGAN UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 10 – Nature of Business and Significant Accounting Policies

Significant accounting policies for the Foundation are as follows:

Principles of Consolidation – The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries, ECMC and PREC. All significant intercompany transactions have been eliminated in the consolidation.

Classification of Net Assets – Net assets of the Foundation are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Foundation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings and unrealized and realized gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Contributions – Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract. Contributions with donor-imposed time or purpose restrictions are reported as restricted revenue. All other contributions are reported as unrestricted revenue.

Cash Equivalents – The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Inventory – Inventory is carried at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Investments – Investments in government and corporate debt and equity securities are stated at current quoted market value. Investments in partnerships, for which a quoted market value is not available, are stated at fair value as determined by the general partner. The real estate holding is recorded at its appraised value. Investments in land are reported at cost, which approximates market. Purchases and sales of investments are recorded as of the trade date. Gain or loss on the sale of investments is computed using

EASTERN MICHIGAN UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

the average cost method. Investment income is recorded on the accrual basis and is reported in the consolidated statement of activities and changes in net assets, net of related expenses. These expenses amounted to approximately \$383,109 and \$342,275 in 2006 and 2005, respectively.

Endowed funds use an investment pool approach, under which each restricted-purpose endowment has a specific unit interest based on its capital contributions to the pool. Income earned in the pool is allocated quarterly to unrestricted funds for general operations and to the individual endowments in proportion to the unit interests as of the end of the quarter. Gains and losses from the sale of pooled investments and unrealized gains and losses on investments held are allocated in the same manner.

Accounts Receivable – Accounts receivable consists primarily of amounts due to ECMC for providing food and beverage and other management services and is presented net of an allowance for uncollectible accounts of \$2,500 and \$14,562 in 2006 and 2005, respectively. The allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that the determination is made.

Contributions Receivable – Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Life Insurance Cash Surrender Value – The Foundation is the owner of certain life insurance policies on various donors who have named the Foundation as beneficiary.

Property and Equipment – Property and equipment are recorded at cost when purchased and at estimated fair market value when donated. Depreciation on property and equipment is provided on a straight-line or accelerated basis over the estimated useful lives of the assets. Depreciation expense for the year ended June 30, 2006 amounted to \$140,661 and \$168,932 in 2006 and 2005, respectively.

Split-interest Agreements – The Foundation is remainder beneficiary of several charitable annuity and unitrusts. In 2006, required distributions to other beneficiaries ranged from 6.2 percent to 12 percent of gift or market value, as defined by each agreement. The discount rates used to calculate the present value range from 4 percent to 11.9 percent in 2006 and 2005.

Tax Status – The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. PREC is exempt from federal income taxes under Section 501(c)(2) of the United States Internal Revenue Code. ECMC is subject to federal income taxes and accounts for them in accordance with SFAS

EASTERN MICHIGAN UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

No. 109, *Accounting for Income Taxes*. Total federal income tax expense on ECMC income was \$87,495 and \$12,560 in 2005 and 2005, respectively. Deferred taxes are immaterial.

Fund-Raising – Fund-raising costs are charged to expense as incurred. The majority of all development activities for the benefit of the University and the Foundation are conducted by the Foundation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note consolidation – Foundation notes “Operating Agreements” and “Fund-raising” have been consolidated into University Note 8, “Related Party Transactions”.

Note 11 – Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Gross contributions promised	\$ 537,196	\$ 1,240,511
Less allowance for uncollectibles	(177,290)	(302,410)
Subtotal	359,906	938,101
Less unamortized discount	(98,469)	(179,079)
Net unconditional promises to give	<u>\$ 261,437</u>	<u>\$ 759,022</u>
Amounts due in:		
Less than one year	\$ 240,605	\$ 770,597
One to five years	261,691	457,064
More than five years	34,900	12,850
Total	<u>\$ 537,196</u>	<u>\$ 1,240,511</u>

EASTERN MICHIGAN UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

Note 12- Property and Equipment

The following is a summary of property and equipment at June 30, 2006 and 2005:

	<u>2005</u>	Net Additions/ (Depreciation)	<u>2006</u>
Building	\$ 2,110,211	\$ 15,660	\$ 2,125,871
Land improvements	50,383	-	50,383
Equipment and software	1,711,210	60,422	1,771,632
Total	3,871,804	76,082	3,947,886
Less accumulated depreciation	(1,636,660)	(140,661)	(1,777,321)
Net carrying amount	<u>\$ 2,235,144</u>	<u>\$ (64,579)</u>	<u>\$ 2,170,565</u>

Note 13-Investments

The following is a summary of all investments held as of June 30, 2006 and 2005, including investments held under split-interest agreements:

	<u>2006</u>	<u>2005</u>
	Market	Market
Foundation:		
U.S. government securities	\$ 4,424,762	\$ 3,603,797
Corporate stock securities	34,120,466	30,614,105
Mutual funds	633,235	616,445
Corporate bonds	3,822,231	3,535,424
Venture capital partnership	25,003	23,876
Real estate holding	55,000	55,000
Total Foundation	43,080,697	38,448,647
ECMC - Land	595,000	595,000
Consolidated Total	<u>\$ 43,675,697</u>	<u>\$ 39,043,647</u>

EASTERN MICHIGAN UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

Net realized and unrealized gains in the accompanying consolidated financial statements have been offset with related losses. Investment income for the year ended June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Dividend and interest income	\$ 893,825	\$ 719,461
Realized gains (losses) - Net	2,353,372	1,439,451
Net realized income and (losses)	3,247,197	2,158,912
Net unrealized gain	1,033,084	1,622,484
Total investment income	<u>\$ 4,280,281</u>	<u>\$ 3,781,396</u>

Note 14-Mortgages and Note Payable

Mortgages as of June 30, 2006 and 2005 are as follows:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>2005</u>	<u>Additions</u>	<u>Retirements/ defeasance</u>	<u>2006</u>
Unrelated third party Foundation	5.25%	2009	\$ 2,031,499	\$ -	\$ -	\$ 2,031,499
Unrelated third party ECMC	6.25%	2006-2009	223,974	-	20,220	203,754
Totals			<u>\$ 2,255,473</u>	<u>\$ -</u>	<u>\$ 20,220</u>	<u>\$ 2,235,253</u>

In 2005, the Foundation entered a mortgage agreement with an unrelated third party and collateralized the obligation with real estate. Monthly interest-only payments at 5.25% are made with a final balloon payment due June 2009.

In 1999, ECMC entered a mortgage agreement with an unrelated third party and collateralized the obligation with real estate. Monthly payments of \$2,803 including interest at 6.25% are made with a final balloon payment due June 2009.

EASTERN MICHIGAN UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

The scheduled future principle payments of the mortgages and note payable are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2007	21,514
2008	22,898
2009	2,190,841
	<u>\$ 2,235,253</u>

Total mortgage and note interest expense for the year ended June 30, 2006 was approximately \$120,000.

Note 15-Net Assets

Funds functioning as endowments for specific purposes	\$ 205,162	\$ 201,203
Funds not yet allocated	154,399	134,038
Total designated	<u>359,561</u>	<u>335,241</u>
Undesignated:		
Net equity of ECMC	1,116,177	974,314
Foundation operations	745,337	621,296
Total undesignated	<u>1,861,514</u>	<u>1,595,610</u>
Total unrestricted net assets	<u>\$ 2,221,075</u>	<u>\$ 1,930,851</u>

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	<u>2006</u>	<u>2005</u>
Scholarships	\$ 9,428,965	\$ 7,175,966
Specific program use	7,496,546	5,461,835
Time-restricted:		
Annuity trust agreements	731,866	655,160
Total	<u>\$ 17,657,377</u>	<u>\$ 13,292,961</u>

Permanently restricted net assets are endowments invested in perpetuity, the income from which is expendable for distributions to the University for scholarships and other programs.

EASTERN MICHIGAN UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

Note 16-Defined Contribution Plans

The Foundation sponsors a defined contribution 403(b) plan for all eligible full-time employees, as defined. Employees may make elective contributions to the 403(b) plan in accordance with IRS regulations. The Foundation may make contributions to the 403(b) plan up to 6 percent of the employees' base salaries. In 2006 and 2005, the Foundation contributed 6 percent of the employees' base salaries.

ECMC sponsors a defined contribution 401(k) plan for all eligible full-time employees, as defined. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. In 2006 and 2005, the ECMC contributed 5 percent of the employees' base salaries.

Total contributions to the plans were approximately \$87,000 and \$96,112 in 2006 and 2005, respectively.

Report of Independent Auditors on Supplemental Information

To the Board of Regents of
Eastern Michigan University

The report on our audit of the financial statements of Eastern Michigan University (the "University") as of June 30, 2006 and 2005, and for the years then ended, appears on page 1 of this document. These audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules accompanying the financial statements are not necessary for a fair presentation of the statements of net assets, and the related statements of revenues, expenses and changes in net assets and cash flows of the University in conformity with accounting principles generally accepted in the United States of America. The supplementary schedules are presented only for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

August 29, 2006

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF NET ASSETS
BY FUND
as of June 30, 2006

	General Fund	Designated Fund	Auxiliary Activities Fund
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,337,065	\$ 14,505,231	\$ 5,894,154
Accounts receivable, net	11,743,314	467,713	261,265
Appropriation receivable	13,846,184	-	-
Inventories	414,871	-	480,506
Deposits and prepaid expenses	166,808	50,471	120,359
Accrued interest receivable		251,195	-
Total current assets	<u>36,508,242</u>	<u>15,274,610</u>	<u>6,756,284</u>
Noncurrent assets:			
Student loans receivable, net	-	-	-
Long-term investments	-	2,037,922	-
Capital assets, net	-	-	-
Other	-	-	-
Total noncurrent assets	<u>-</u>	<u>2,037,922</u>	<u>-</u>
Total assets	<u>\$ 36,508,242</u>	<u>\$ 17,312,532</u>	<u>\$ 6,756,284</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2,385,904	207,006	991,969
Accrued payroll	8,603,881	128,003	559,224
Payroll taxes and accrued fringe benefits	6,671,527	-	197,822
Unearned fees and deposits	4,522,828	150,472	652,442
Insurance and other claims payable	3,014,018	-	807,420
Total current liabilities	<u>25,198,158</u>	<u>485,481</u>	<u>3,208,877</u>
Noncurrent liabilities:			
Accrued compensated absences	1,884,459	26,054	439,098
Long-term debt	-	-	-
Long-term unearned fees and deposits	-	-	-
Total noncurrent liabilities	<u>1,884,459</u>	<u>26,054</u>	<u>439,098</u>
Total liabilities	<u>\$ 27,082,617</u>	<u>\$ 511,535</u>	<u>\$ 3,647,975</u>
NET ASSETS (Note 9)			
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -
Restricted, expendable	-	-	-
Unrestricted			
Designated	4,959,040	16,800,997	3,108,309
Undesignated	4,466,585	-	-
Total net assets	<u>\$ 9,425,625</u>	<u>\$ 16,800,997</u>	<u>\$ 3,108,309</u>

The accompanying notes are an integral part of this schedule.

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Consolidated Total
\$ 203,610	\$ 888,043	\$ 31,994,261	\$ 1,854,090	\$ 65,676,454
9,779,226	387,578	29,833	-	22,668,929
-	-	-	-	13,846,184
-	-	-	-	895,377
-	-	874,591	-	1,212,229
	382	220,753		472,330
<u>9,982,836</u>	<u>1,276,003</u>	<u>33,119,438</u>	<u>1,854,090</u>	<u>104,771,503</u>
-	11,304,304	-	-	11,304,304
-	-	26,218,622	-	28,256,544
-	-	310,844,852	-	310,844,852
-	-	8,051,550	-	8,051,550
-	11,304,304	345,115,024	-	358,457,250
<u>\$ 9,982,836</u>	<u>\$ 12,580,307</u>	<u>\$ 378,234,462</u>	<u>\$ 1,854,090</u>	<u>\$ 463,228,753</u>
\$ -	\$ -	\$ 4,830,000	\$ -	\$ 4,830,000
4,557,577	-	7,992,436	2,935	16,137,827
259,812	-	-	-	9,550,920
-	-	-	-	6,869,349
9,147	-	220,000	1,851,155	7,406,044
-	-	-	-	3,821,438
<u>4,826,536</u>	<u>-</u>	<u>13,042,436</u>	<u>1,854,090</u>	<u>48,615,578</u>
45,986	-	-	-	2,395,597
-	-	149,455,000	-	149,455,000
-	-	220,000	-	220,000
45,986	-	149,675,000	-	152,070,597
<u>\$ 4,872,522</u>	<u>\$ -</u>	<u>\$ 162,717,436</u>	<u>\$ 1,854,090</u>	<u>\$ 200,686,175</u>
\$ -	\$ -	\$ 189,229,163	\$ -	\$ 189,229,163
5,110,314	12,580,307	26,287,863	-	43,978,484
-	-	-	-	24,868,346
-	-	-	-	4,466,585
<u>\$ 5,110,314</u>	<u>\$ 12,580,307</u>	<u>\$ 215,517,026</u>	<u>\$ -</u>	<u>\$ 262,542,578</u>

The accompanying notes are an integral part of this schedule.

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF
REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BY FUND
as of June 30, 2006

	General Fund	Designated Fund	Auxiliary Fund
OPERATING REVENUES			
Student tuition and fees	\$ 133,743,672	\$ 19,991,470	\$ 94,796
Scholarship allowances	-	-	-
Net student tuition and fees	<u>133,743,672</u>	<u>19,991,470</u>	<u>94,796</u>
Federal grants and contracts	-	-	-
Federal financial aid	-	-	-
State grants and contracts	-	-	-
State financial aid	-	-	-
Nongovernmental grants and contracts	-	54,017	-
Departmental activities	136,781	5,612,899	-
Auxiliary activities, net	-	-	33,211,835
Indirect cost recovery (deduction)	526,870	631,989	-
Other	845,052	-	-
Total operating revenues	<u>135,252,375</u>	<u>26,290,375</u>	<u>33,306,631</u>
OPERATING EXPENSES			
Instruction	96,979,449	1,377,136	-
Research	1,122,157	518,754	-
Public service	2,365,839	1,820,247	-
Academic support	19,075,165	1,115,825	-
Student services	18,496,006	5,054,315	-
Institutional support	29,948,715	3,666,872	-
Scholarships and fellowships	18,069,356	9,634	-
Operation and maintenance of plant	17,038,297	168,633	-
Auxiliary activities, net	-	-	30,836,519
Depreciation	-	-	-
Capital additions, net	3,415,980	228,619	118,914
Other	-	-	-
Total operating expenses	<u>206,510,964</u>	<u>13,960,035</u>	<u>30,955,433</u>
Operating income (loss)	<u>(71,258,589)</u>	<u>12,330,340</u>	<u>2,351,198</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	76,764,820	-	-
Gifts	-	1,380,149	-
Investment income	-	2,138,629	-
Interest expense	-	-	-
Other	-	-	-
Net nonoperating revenues before transfers & capital it	<u>76,764,820</u>	<u>3,518,778</u>	<u>-</u>
TRANSFERS IN (OUT)			
Mandatory:			
Funds for debt service	(3,014,668)	(3,691,764)	(2,532,424)
Matching funds	(250,939)	-	-
Perkins match	-	-	-
Non-mandatory:			
Other	(1,989,859)	(10,638,422)	(282,045)
Total transfers	<u>(5,255,466)</u>	<u>(14,330,186)</u>	<u>(2,814,469)</u>
Capital grants and gifts	-	-	-
Total net nonoperating revenues (expenses)	<u>71,509,354</u>	<u>(10,811,408)</u>	<u>(2,814,469)</u>
Increase in net assets	250,765	1,518,932	(463,271)
NET ASSETS, beginning of year as restated (Note 9)	9,174,860	15,282,065	3,571,580
NET ASSETS, end of year	<u>\$ 9,425,625</u>	<u>\$ 16,800,997</u>	<u>\$ 3,108,309</u>

The accompanying notes are an integral part of this schedule.

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Eliminations	Consolidated
\$ 709,286	\$ -	\$ -	\$ -	\$ 154,539,224
-	-	-	(16,348,058)	(16,348,058)
709,286	-	-	(16,348,058)	138,191,166
6,112,476	146,587	-	-	6,259,063
13,631,569	-	-	-	13,631,569
448,878	-	-	-	448,878
3,249,840	-	-	-	3,249,840
5,133,674	-	-	-	5,187,691
-	-	270,363	-	6,020,043
-	-	-	(2,973,670)	30,238,165
(1,158,859)	-	-	-	-
414,535	152,297	378,238	-	1,790,122
28,541,399	298,884	648,601	(19,321,728)	205,016,537
380,713	-	-	-	98,737,298
3,567,320	-	-	-	5,208,231
6,698,423	-	-	-	10,884,509
578,455	-	-	-	20,769,445
48,604	-	-	-	23,598,925
207,950	-	-	-	33,823,537
17,046,733	-	-	(16,348,058)	18,777,665
-	-	5,534,364	-	22,741,294
-	-	-	(2,973,670)	27,862,849
-	-	15,528,664	-	15,528,664
654,209	-	(4,417,722)	-	-
-	357,411	-	-	357,411
29,182,407	357,411	16,645,306	(19,321,728)	278,289,828
(641,008)	(58,527)	(15,996,705)	-	(73,273,291)
-	-	-	-	76,764,820
1,947,310	-	120,056	-	3,447,515
-	128,842	1,135,884	-	3,403,355
-	-	(6,245,093)	-	(6,245,093)
207,550	-	450,539	-	658,089
2,154,860	128,842	(4,538,614)	-	78,028,686
-	-	9,238,856	-	-
250,939	-	-	-	-
-	-	-	-	-
199,721	-	12,710,605	-	-
450,660	-	21,949,461	-	-
-	-	229,080	-	229,080
2,605,520	128,842	17,639,927	-	78,257,766
1,964,512	70,315	1,643,222	-	4,984,475
3,145,802	12,509,992	213,873,804	-	257,558,103
\$ 5,110,314	\$ 12,580,307	\$ 215,517,026	\$ -	\$ 262,542,578

The accompanying notes are an integral part of this schedule.

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF NET ASSETS
BY FUND
as of June 30, 2005 (as restated)

	General Fund	Designated Fund	Auxiliary Activities Fund
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,523,070	\$ 14,905,717	\$ 2,869,303
Accounts receivable, net	8,963,410	5,257,488	3,840,608
Appropriation receivable	13,442,980	-	-
Inventories	164,160	-	330,932
Deposits and prepaid expenses	468,076	134,979	135,918
Accrued interest receivable	-	175,334	-
Total current assets	<u>33,561,696</u>	<u>20,473,518</u>	<u>7,176,761</u>
Noncurrent assets:			
Student loans receivable, net	-	-	-
Long-term investments	-	46,362	-
Capital assets, net	-	-	-
Other	-	-	-
Total noncurrent assets	<u>-</u>	<u>46,362</u>	<u>-</u>
Total assets	<u>\$ 33,561,696</u>	<u>\$ 20,519,880</u>	<u>\$ 7,176,761</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2,317,795	4,935,685	619,199
Accrued payroll	7,333,832	121,799	603,763
Payroll taxes and accrued fringe benefits	7,015,120	-	303,999
Unearned fees and deposits	3,010,513	152,598	956,055
Insurance and other claims payable	1,853,143	-	793,274
Total current liabilities	<u>21,530,403</u>	<u>5,210,082</u>	<u>3,276,290</u>
Noncurrent liabilities:			
Accrued compensated absences	2,856,433	27,733	328,891
Long-term debt	-	-	-
Long-term unearned fees and deposits	-	-	-
Total noncurrent liabilities	<u>2,856,433</u>	<u>27,733</u>	<u>328,891</u>
Total liabilities	<u>\$ 24,386,836</u>	<u>\$ 5,237,815</u>	<u>\$ 3,605,181</u>
NET ASSETS (Note 9)			
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -
Restricted, expendable	-	-	-
Unrestricted			
Designated	4,670,352	15,282,065	3,571,580
Undesignated	4,504,508	-	-
Total net assets	<u>\$ 9,174,860</u>	<u>\$ 15,282,065</u>	<u>\$ 3,571,580</u>

The accompanying notes are an integral part of this schedule

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Consolidated Total
\$ (445,486)	\$ 430,743	\$ 10,471,318	\$ 1,355,649	\$ 40,110,314
4,152,807	520,219	510,995	-	23,245,527
-	-	-	-	13,442,980
-	-	-	-	495,092
-	-	597,693	-	1,336,666
-	382	219,798	-	395,514
<u>3,707,321</u>	<u>951,344</u>	<u>11,799,804</u>	<u>1,355,649</u>	<u>79,026,093</u>
-	11,558,648	-	-	11,558,648
-	-	48,883,780	-	48,930,142
-	-	290,780,438	-	290,780,438
-	-	1,422,751	-	1,422,751
-	11,558,648	341,086,969	-	352,691,979
<u>\$ 3,707,321</u>	<u>\$ 12,509,992</u>	<u>\$ 352,886,773</u>	<u>\$ 1,355,649</u>	<u>\$ 431,718,072</u>
\$ -	\$ -	\$ 4,461,750	\$ -	\$ 4,461,750
282,003	-	2,856,219	4,796	11,015,697
228,543	-	-	-	8,287,937
-	-	-	-	7,319,119
4,987	-	220,000	1,350,853	5,695,006
-	-	-	-	2,646,417
<u>515,533</u>	<u>-</u>	<u>7,537,969</u>	<u>1,355,649</u>	<u>39,425,926</u>
45,986	-	-	-	3,259,043
-	-	131,035,000	-	131,035,000
-	-	440,000	-	440,000
<u>45,986</u>	<u>-</u>	<u>131,475,000</u>	<u>-</u>	<u>134,734,043</u>
<u>\$ 561,519</u>	<u>\$ -</u>	<u>\$ 139,012,969</u>	<u>\$ 1,355,649</u>	<u>\$ 174,159,969</u>
\$ -	\$ -	191,491,736	\$ -	\$ 191,491,736
3,145,802	12,509,992	22,382,068	-	38,037,862
-	-	-	-	23,523,997
-	-	-	-	4,504,508
<u>\$ 3,145,802</u>	<u>\$ 12,509,992</u>	<u>\$ 213,873,804</u>	<u>\$ -</u>	<u>\$ 257,558,103</u>

The accompanying notes are an integral part of this schedule

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF
REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BY FUND
as of June 30, 2005 (as restated)

	General Fund	Designated Fund	Auxiliary Fund
OPERATING REVENUES			
Student tuition and fees	\$ 117,478,571	\$ 20,079,743	\$ 93,516
Scholarship allowances	-	-	-
Net student tuition and fees	117,478,571	20,079,743	93,516
Federal grants and contracts	-	-	-
Federal financial aid	-	-	-
State grants and contracts	-	-	-
State financial aid	-	-	-
Nongovernmental grants and contracts	-	(26,318)	-
Departmental activities	125,008	5,143,565	-
Auxiliary activities, net	-	-	33,391,245
Indirect cost recovery (deduction)	491,229	470,227	-
Other	857,700	-	-
Total operating revenues	118,952,508	25,667,217	33,484,761
OPERATING EXPENSES			
Instruction	91,651,491	1,036,450	-
Research	856,170	400,535	-
Public service	2,333,435	1,933,146	-
Academic support	18,837,147	614,549	-
Student services	19,077,789	5,113,937	-
Institutional support	27,710,085	4,432,609	-
Scholarships and fellowships	15,542,526	36,928	-
Operation and maintenance of plant	15,437,358	21,509	-
Auxiliary activities, net	-	-	30,171,492
Depreciation	-	-	-
Capital additions, net	3,095,524	172,825	70,476
Other	-	-	-
Total operating expenses	194,541,525	13,762,488	30,241,968
Operating income (loss)	(75,589,017)	11,904,729	3,242,793
NONOPERATING REVENUES (EXPENSES)			
State appropriations	79,051,199	-	-
Gifts	-	1,127,716	-
Investment income	-	1,475,549	-
Interest expense	-	-	-
Other	-	-	-
Net nonoperating revenues before transfers & capital items	79,051,199	2,603,265	-
TRANSFERS IN (OUT)			
Mandatory:			
Funds for debt service	(2,622,621)	(3,338,930)	(2,544,400)
Matching funds	(481,329)	-	-
Perkins match	(14,801)	-	-
Non-mandatory:			
Other	32,916	(8,990,959)	(905,172)
Total transfers	(3,085,835)	(12,329,889)	(3,449,572)
Capital grants and gifts	-	-	-
Total net nonoperating revenues (expenses)	75,965,364	(9,726,624)	(3,449,572)
Increase in net assets	376,347	2,178,105	(206,779)
NET ASSETS, beginning of year as restated (Note 9)	8,798,513	13,103,960	3,778,359
NET ASSETS, end of year	\$ 9,174,860	\$ 15,282,065	\$ 3,571,580

The accompanying notes are an integral part of this schedule.

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Eliminations	Consolidated
\$ -	\$ -	\$ -	\$ -	\$ 137,651,830
-	-	-	(14,939,275)	(14,939,275)
-	-	-	(14,939,275)	122,712,555
6,944,185	272,166	-	-	7,216,351
13,181,139	-	-	-	13,181,139
639,066	-	-	-	639,066
3,206,349	-	-	-	3,206,349
4,166,429	-	-	-	4,140,111
-	-	283,831	-	5,552,404
-	-	-	(2,639,162)	30,752,083
(961,456)	-	-	-	-
149,957	48,540	122,162	-	1,178,359
27,325,669	320,706	405,993	(17,578,437)	188,578,417
347,546	-	-	-	93,035,487
3,689,597	-	-	-	4,946,302
6,555,184	-	-	-	10,821,765
150,397	-	-	-	19,602,093
527,160	-	-	-	24,718,886
287,615	-	-	-	32,430,309
17,077,145	-	-	(14,939,275)	17,717,324
3,679	-	3,303,604	(2,639,162)	18,766,150
-	-	-	-	27,532,330
-	-	16,062,418	-	16,062,418
503,337	-	(3,842,162)	-	-
-	269,259	-	-	269,259
29,141,660	269,259	15,523,860	(17,578,437)	265,902,323
(1,815,991)	51,447	(15,117,867)	-	(77,323,906)
-	-	-	-	79,051,199
1,627,231	-	100,110	-	2,855,057
-	136,862	925,722	-	2,538,133
-	-	(6,840,022)	-	(6,840,022)
389,519	-	13,889	-	403,408
2,016,750	136,862	(5,800,301)	-	78,007,775
-	-	8,505,951	-	-
480,171	1,158	-	-	-
-	14,801	-	-	-
(918,269)	-	10,781,484	-	-
(438,098)	15,959	19,287,435	-	-
-	-	57,000	-	57,000
1,578,652	152,821	13,544,134	-	78,064,775
(237,339)	204,268	(1,573,733)	-	740,869
3,383,141	12,305,724	215,447,537	-	256,817,234
\$ 3,145,802	\$ 12,509,992	\$ 213,873,804	\$ -	\$ 257,558,103

The accompanying notes are an integral part of this schedule.

EASTERN MICHIGAN UNIVERSITY
NOTES TO THE SUPPLEMENTARY 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 University policy.

Auxiliary Activities Fund is used to account for services and facilities provided to students, faculty, staff and the public.

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 withheld from payrolls and amounts held in custody for students, University-related organizations and others.

The eliminations on the Schedules of Revenues, Expenses and Changes in Net Assets 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*.