

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 20
DATE: September 21, 2010

RECOMMENDATION

**CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION AS OF JUNE 30, 2010**

ACTION REQUESTED

It is recommended that the Board of Regents approve and place on file the University's audited fiscal year 2010 Financial Statements and Auditor's Report.

STAFF SUMMARY

The Financial Statements and Supplementary Information as of June 30, 2010 together with the Auditor's report are attached. Plante & Moran has issued its opinion indicating that the statements present fairly, and in conformity with Generally Accepted Accounting Principles, the financial position, results of operations, and cash flows for Eastern and the Foundation.

For this fiscal year, the University has adopted GASB No. 53 "Accounting and Financial Reporting for Derivative Instruments". This impacts Eastern as the University utilizes interest rate swap agreements to synthetically convert our \$125 million in variable rate debt to a fixed interest rate. Financial Statement highlights include:

- Net Assets of \$231.1 million, reflecting a \$5.7 million year-to-year increase in net assets from operations (operating surplus) offset by a \$7.1 million decrease in the fair value of the interest rate swap agreements. The fair value decrease is a non-cash accounting charge.
- Unrestricted net assets of \$56.1 million, down \$9.5 million year-to-year reflecting the planned investment of reserves (accumulated tuition earmark for capital) in capital projects

During their audit, Plante & Moran identified one internal control significant deficiency/material weakness related to incomplete bank reconciliations coupled with the ability of the reconciler to write journal entries. This control deficiency has been corrected. No issues were identified by Plante & Moran relating to the University's accounting practices, accounting estimates, or financial statement disclosures.

Representatives of Plante & Moran will be attending the Board's Finance and Audit Committee meeting to present a summary of the results of their audit and to discuss any comments or questions regarding the financial statements or audit.

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**Contents**

June 30, 2010 and 2009

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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 (a component unit of the State of Michigan) (the "University") and its discretely presented component unit as of June 30, 2010 and 2009 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years 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 in accordance with auditing standards generally accepted in the United States of America. In addition, the audit of the basic financial statements was audited in accordance with *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 audits provide 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, 2010 and 2009, 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.

As disclosed in Note 8 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, changing how the University accounts for the fair value of its interest rate swaps.

In accordance with *Government Auditing Standards*, we have also issued our report dated September xx, 2010 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 10 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.

September xx, 2010

EASTERN MICHIGAN UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Eastern Michigan University's ("University") financial statements provides an overview of the University's financial activities for the years ended June 30, 2010, 2009, and 2008. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

The University's financial statements were prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 39). These criteria include significant operational or financial relationships. Based on the application of the criteria, the University has one component unit -- The Eastern Michigan University Foundation. The Foundation's statements are discretely presented as part of the University's reporting entity in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB).

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

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

Financial Highlights

The University's financial position remained strong at June 30, 2010, with assets of \$567 million and liabilities of \$336 million. Net assets have increased \$5.7 million, \$5.3 million and \$3.0 million for the years ended June 30, 2010, 2009 and 2008, respectively before factoring in a mandatory accounting rule change.

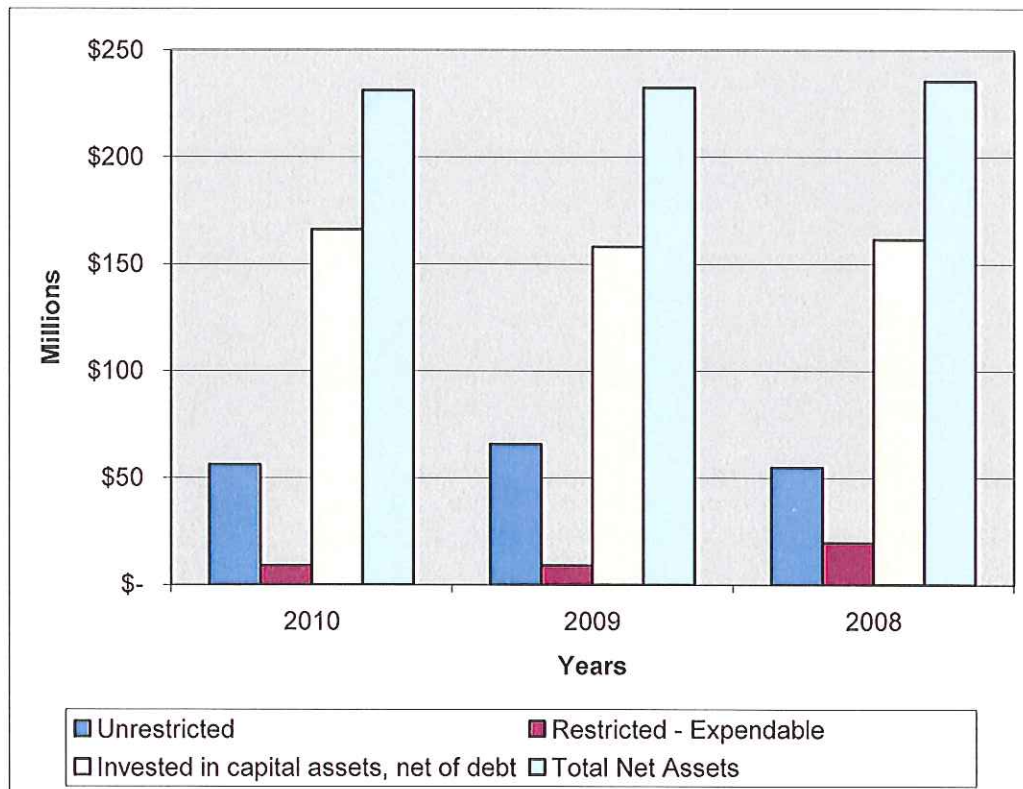
In 2010, the University implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, retroactive to 2008. The standard requires the University to annually calculate the overall effectiveness of certain debt instruments. If the instruments become ineffective over the life of the bonds, the University is required to record the fair market value of the instruments on the Statement of Net Assets. Based on analysis performed by the University, the debt instruments are currently deemed ineffective. The University is restating net assets by (\$6.8) million as of June 30, 2008. In addition, net assets decreased \$7.1 million and \$8.5 million in 2010 and 2009, respectively.

Net Assets as of June 30 (In millions)	<u>2010</u>		<u>2009</u>		<u>2008</u>
Increase in net assets before GASB 53 implementation	\$ 5.7	\$	5.3	\$	3.0
Derivatives fair value decrease	(7.1)		(8.5)		(6.8)
Overall decrease in net assets	<u>\$ (1.4)</u>	<u>\$</u>	<u>(3.2)</u>	<u>\$</u>	<u>(3.8)</u>

EASTERN MICHIGAN UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The University borrowed \$102.4 million in 2009 to fund the Science Complex and other capital projects. The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2010, 2009, and 2008.



The University has committed the unrestricted net assets to provide for identified future needs. These needs include contractual obligations, debt service, student loans, capital outlay, insurance reserves, and academic programming needs.

EASTERN MICHIGAN UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

The University's financial report includes three financial statements: the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows.

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

Following is a summary of the major components of the net assets and operating results of the University for the years ended June 30, 2010, 2009, and 2008:

Net Assets as of June 30 (In millions)	2010	2009	2008
Assets			
Current assets	\$ 90.5	\$ 74.3	\$ 120.5
Non current assets:			
Capital assets - Net of depreciation	379.2	326.1	314.7
Other	97.0	151.9	12.6
Total assets	<u>\$ 566.7</u>	<u>\$ 552.3</u>	<u>\$ 447.8</u>
Liabilities			
Current liabilities	\$ 60.2	\$ 47.9	\$ 49.2
Long-term liabilities	275.4	271.9	162.9
Net Assets			
Invested in capital assets restated	166.1	158.0	161.5
Restricted	8.9	8.9	19.4
Unrestricted	56.1	65.6	54.8
Total net assets	<u>231.1</u>	<u>232.5</u>	<u>235.7</u>
Total liabilities and net assets	<u>\$ 566.7</u>	<u>\$ 552.3</u>	<u>\$ 447.8</u>

EASTERN MICHIGAN UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2010	2009	2008
Operating Revenues			
Tuition and fees - Net	\$ 160.0	\$ 154.7	\$ 147.2
Grants and contracts	16.1	15.6	16.2
Auxiliary activities - Net	32.6	31.9	29.6
Other	9.1	9.7	8.4
Total operating revenues	<u>217.8</u>	<u>211.9</u>	<u>201.4</u>
Operating Expenses			
Instruction	114.5	105.9	104.6
Research	5.6	5.1	5.1
Public service	14.3	11.0	10.7
Academic support	20.4	20.5	21.0
Student services	29.7	28.6	26.9
Institutional support	39.9	36.3	36.1
Operations and maintenance of plant	22.7	29.8	26.8
Scholarships and fellowships	28.5	23.9	19.5
Auxiliary activities - Net	25.4	25.9	25.2
Depreciation	15.3	15.4	15.8
Other expenditures	0.5	1.2	6.6
Total operating expenses	<u>316.8</u>	<u>303.6</u>	<u>298.3</u>
Net Operating Loss	(99.0)	(91.7)	(96.9)
Nonoperating Revenues (Expenses)			
State appropriations	76.0	78.6	84.9
Gifts	4.5	3.9	3.3
Change in value of derivative instruments	(7.1)	(8.5)	(6.8)
Pell grants	29.9	17.2	14.8
Other nonoperating expenses	(5.8)	(4.1)	(3.2)
Net Nonoperating Revenues	<u>97.5</u>	<u>87.1</u>	<u>93.0</u>
Other Revenues			
Capital gifts	0.1	1.4	0.1
Total other revenues	<u>0.1</u>	<u>1.4</u>	<u>0.1</u>
Decrease in Net Assets	(1.4)	(3.2)	(3.8)
Net Assets - Beginning of year	232.5	235.7	239.5
Net Assets - End of year restated	\$ <u>231.1</u>	\$ <u>232.5</u>	\$ <u>235.7</u>

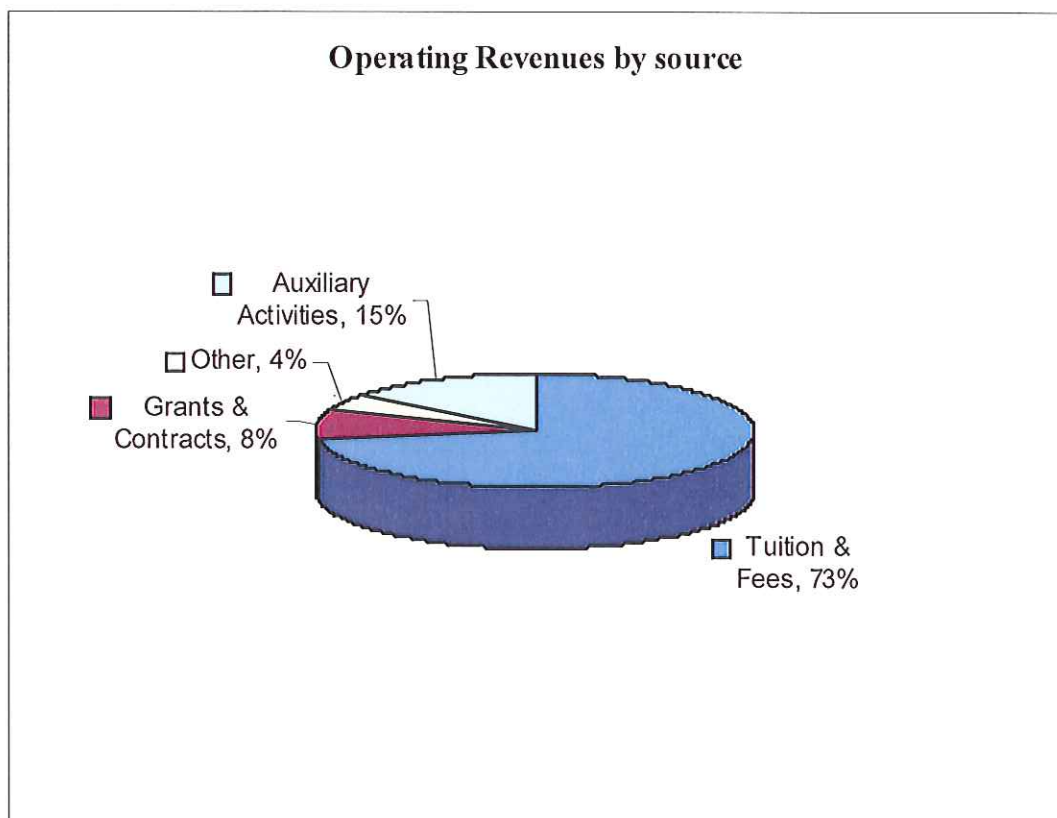
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Revenues

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

Student tuition and fees revenue increased as a result of the University raising the rates by 3.8 percent for undergraduate, master, and doctoral students.

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

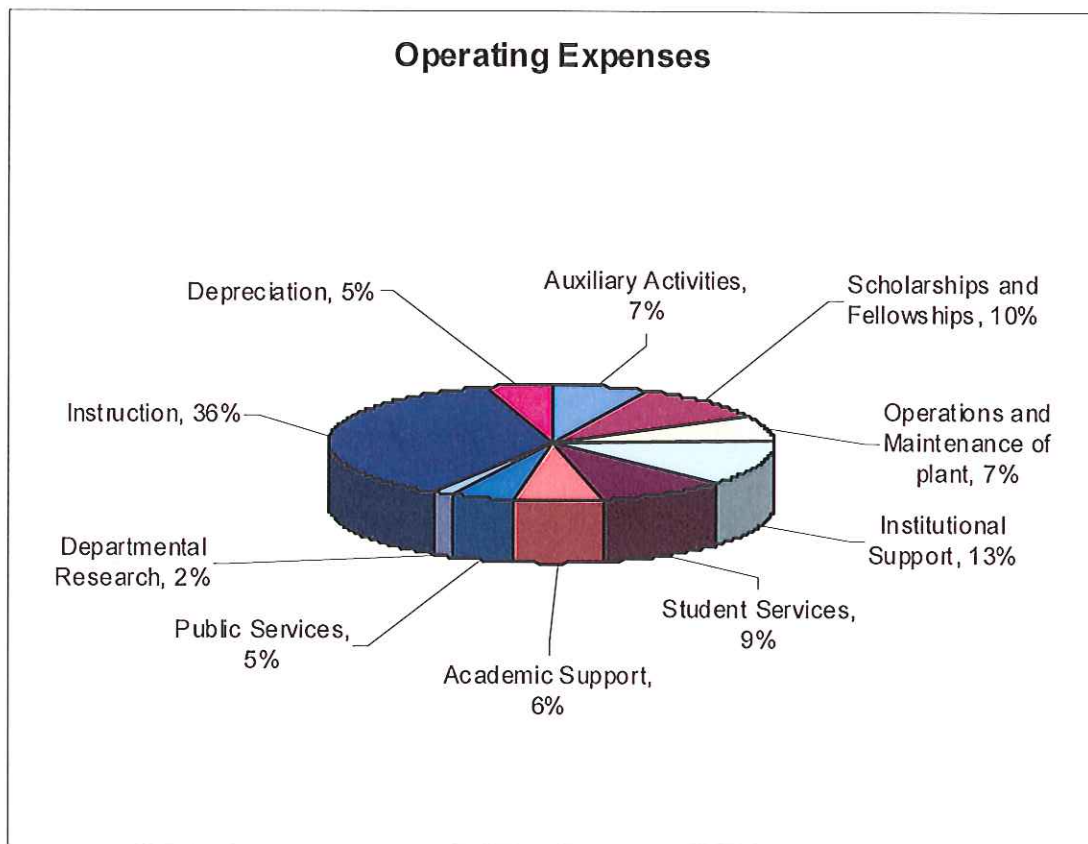


EASTERN MICHIGAN UNIVERSITY**MANAGEMENT'S DISCUSSION AND ANALYSIS****Operating Expenses**

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

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

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



EASTERN MICHIGAN UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating Revenues

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

Nonoperating revenue was significantly impacted by the following factors:

- Pell grants increased by \$12.7 million to \$29.9 million in 2010.
- State appropriations decreased from the prior year by \$2.6 million or 3.3%. This decrease was partially offset by \$2.1 million in Federal stabilization funds from the American Recovery and Reinvestment Act of 2009.
- As part of the Build America Bonds program (June 10, 2009), the University borrowed \$102.4 million for capital projects. This resulted in a \$4.7 million increase in interest expense that was partially recovered by a \$1.3 million subsidy from the American Recovery and Reinvestment Act of 2009.

Other Revenues

Other revenues consist of items that are typically nonrecurring, extraordinary, or unusual to the University. Examples would be capital gifts, capital appropriations from the state or federal government, and transfers from related entities. Capital gifts amounted to \$0.1 million in 2010, \$1.4 million in 2009, and \$0.1 million in 2008.

Statement of Cash Flow

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

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

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

	2010	2009	2008
Cash Provided by (Used in):			
Operating activities	\$ (71.4)	\$ (78.2)	\$ (74.3)
Noncapital financing activities	113.2	101.1	94.6
Capital and related financing activities	(79.1)	71.1	(22.0)
Investing activities	42.0	(79.5)	5.7
Net Increase in Cash	4.7	14.5	4.0
Cash - Beginning of year	28.8	14.3	10.3
Cash - End of year	\$ 33.5	\$ 28.8	\$ 14.3

EASTERN MICHIGAN UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash and Investments

Cash and investments, collectively, decreased by \$38.6 million to \$135.7 million as of June 30, 2010 primarily due to spending bond proceeds on capital projects.

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, grants, and contracts. Net cash used in operating activities was \$71.4 million. To offset this, the net cash provided from noncapital financing activities, which consisted primarily of State appropriations, was \$113.2 million. This is compared to net cash used in operating activities in the amount of \$78.2 million and \$74.3 million for the years ended June 30, 2009 and 2008, respectively. Net cash provided by non-capital financing activities was \$101.1 million and \$94.6 million for the years ended June 30, 2009 and 2008, respectively.

Cash used by capital and related financing activities amounted to \$79.1 million in 2010, primarily the spending of \$69.0 million on capital additions. Cash provided by capital and related financing activities amount to \$71.1 million in 2009, primarily the result of borrowing \$102.4 million for capital projects and spending \$26.9 million on capital expenses. Cash used in capital and related financing activities amounted to \$22.0 million in 2008, primarily from capital additions.

Capital Assets

At June 30, 2010, the University had \$379.2 million invested in capital assets, net of accumulated depreciation of \$265.1 million. Depreciation charges totaled \$15.3 million for 2010 compared to \$15.4 million in 2009. In 2010 the University completed renovations to the Department of Public Safety offices, renovated the Parsons Property, built an indoor athletic practice facility, improved auxiliary building energy efficiency, and continued to improve classrooms. Capital projects in progress at June 30, 2010 primarily include the Science Complex addition and renovation, Pray-Harrold renovation, dormitory renovations, and apartment renovations.

At June 30, 2009, the University had \$326.1 million invested in capital assets, net of accumulated depreciation of \$251.7 million. Depreciation charges totaled \$15.4 million for the current fiscal year compared to \$15.8 million the prior year. The University completed renovations to Pease Auditorium in 2009 along with improving campus security, classrooms, and auxiliary facilities.

In 2008, depreciable assets and accumulated depreciation of approximately \$19 million were retired. This represents fully depreciated equipment purchased when the University capitalization threshold was \$500 and later \$1,000. Currently the threshold is \$5,000 for equipment.

Debt

At June 30, 2010, the University had \$241.0 million in obligations outstanding versus \$244.8 million in the previous year, a decrease of 1.6 percent. The University borrowed \$102.4 million in 2009 to fund a major science complex expansion and renovation as well as other capital projects. At June 30, 2009, the debt obligations increased 67.2 percent, from a balance of \$146.4 million at June 30, 2008. The University also issued \$125.8 million of general revenue bonds in 2009 to refinance existing variable-rate debt issued in 2009 used to finance capital projects on campus and refinance existing debt. All of the outstanding debt instruments are general revenue obligations of the University. In addition, principal payments of \$3.8 million and \$3.9 million were made in 2010 and 2009, respectively.

EASTERN MICHIGAN UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the University's \$125,795,000 of enhanced variable rate debt refinanced in 2009, the credit ratings assigned by Moody's Investor Services (Aaa/VMIG-1) and Standard and Poors (AAA/A1+) were unchanged from 2009. For the University's \$102,380,000 of fixed rate debt, separate ratings were assigned by each agency for the insured portion of the debt and the uninsured portion. Moody's ratings were Aa2 (insured) and A2 (uninsured); Standard and Poor's rating were AAA (insured) and A- (uninsured). The highest achievable ratings are "Aaa" and "AAA", respectively. The University's capacity to meet its financial obligations is considered to be strong by the rating agency and reflects limited additional borrowing capacity as of June 30, 2010.

Factors that Will Affect the Future

Among the University's priorities for the 2010-11 academic year are increasing enrollment, improving academic facilities, and enhancing student life. A solid base of successes in 2009-10 continued to lay the groundwork for new initiatives in those areas. They include:

- The University continues in the first phase of a two-phased unprecedented \$90 million addition and renovation of the Science Complex. Once complete, the 330,000 square foot complex will provide the biology, chemistry, and psychology departments much needed science laboratory and research space and provide students a first-class educational experience.
- The State of Michigan approved in its Capital Outlay Bill \$30.5 million of funding for the renovation of Pray-Harrod, a seven-story classroom building that is the largest on campus and among the most heavily used in the state. The \$42 million renovation will continue in 2011.
- The University also is committed to enhancing its current facilities. Eastern will be embarking on capital expenditures to improve classroom buildings, residence halls, parking and safety, and athletic facilities.

Acting in its April meeting, the Eastern Michigan University Board of Regents adopted a \$280.9 million General Fund operating budget for the 2010-2011 year that reflects a 0% tuition, fees and room & board increase.

The new budget reflects that the University's state appropriation for the 2010-2011 year is expected to be \$75.8 million, a decrease of \$0.2 million. Enrollment growth is expected to result in a projected net revenue increase of \$4.7 million for the 2010-2011 year. Budgeted expenses have increased modestly for compensation, utilities, financial aid, debt services, and library acquisitions.

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

EASTERN MICHIGAN UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2010 and 2009

	2010	2009
A S S E T S		
Current assets:		
Cash and cash equivalents - unrestricted (Note 2)	\$ 28,664,104	\$ 28,796,228
Cash and cash equivalents - restricted (Note 2)	4,807,196	-
Short-term investments - unrestricted (Note 2)	-	8,018,708
Short-term investments - restricted (Note 2)	20,051,565	-
Accounts receivable - net (Note 3)	20,414,073	20,931,642
Appropriation receivable	13,811,930	14,282,146
Inventories	908,809	944,818
Deposits and prepaid expenses	1,441,678	1,181,717
Accrued interest receivable	356,010	163,026
Total current assets	<u>90,455,365</u>	<u>74,318,285</u>
Noncurrent assets:		
Student loans receivable - net (Note 3)	12,532,789	11,980,535
Long-term investments- unrestricted (Note 2)	56,683,638	45,422,820
Long-term investments- restricted (Note 2)	25,465,537	92,050,059
Capital assets - net (Note 4)	379,223,120	326,096,714
Capitalized bond expenses - net (Note 5)	2,347,482	2,453,586
Total noncurrent assets	<u>476,252,566</u>	<u>478,003,714</u>
Total assets	<u>\$ 566,707,931</u>	<u>\$ 552,321,999</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 3,610,000	\$ 3,835,000
Accounts payable and accrued liabilities	26,057,612	14,559,961
Accrued payroll, taxes, and fringe benefits	18,360,043	19,282,477
Unearned fees and deposits	10,236,872	8,345,374
Insurance and other claims payable (Note 7)	2,021,669	1,885,022
Total current liabilities	<u>60,286,196</u>	<u>47,907,834</u>
Noncurrent liabilities:		
Accrued compensated absences (Note 6)	4,763,283	4,843,791
Long-term debt (Note 5)	237,350,000	240,960,000
Fair value of derivative instruments (Note 5 and 8)	22,439,956	15,338,778
Federal Perkins	10,796,240	10,796,240
Total noncurrent liabilities	<u>275,349,479</u>	<u>271,938,809</u>
Total liabilities	<u>\$ 335,635,675</u>	<u>\$ 319,846,643</u>
NET ASSETS		
Invested in capital assets - Net of related debt as Restated (Note 8)	\$ 166,147,463	\$ 158,012,995
Restricted, expendable	8,878,841	8,866,294
Unrestricted	56,045,952	65,596,067
Total net assets	<u>\$ 231,072,256</u>	<u>\$ 232,475,356</u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY FOUNDATION
BALANCE SHEET
As of June 30, 2010 and 2009

A S S E T S	2010	2009
Cash and cash equivalents (Note 2)	\$ 4,203,817	\$ 2,727,039
Accrued interest and dividends	58,643	117,558
Other assets	100,451	106,852
Contributions receivable (Note 3)	1,004,220	434,867
Life insurance cash surrender value	269,996	251,967
Property and equipment - Net	1,977,217	1,985,121
Investments (Note 1)	36,633,172	36,559,087
Investments held under split-interest agreements (Note 1)	1,051,253	961,419
Total assets	<u>\$ 45,298,769</u>	<u>\$ 43,143,910</u>
LIABILITIES		
Accounts payable	\$ 854,511	\$ 403,870
Accrued liabilities	8,636	8,096
Mortgages payable	-	2,031,499
Liabilities under split-interest agreements	783,682	744,458
Total liabilities	<u>\$ 1,646,829</u>	<u>\$ 3,187,923</u>
NET ASSETS		
Unrestricted	\$ 836,920	\$ 126,941
Temporarily restricted	10,422,838	8,399,707
Permanently restricted	32,392,182	31,429,339
Total net assets	<u>\$ 43,651,940</u>	<u>\$ 39,955,987</u>
Total liabilities and net assets	<u>\$ 45,298,769</u>	<u>\$ 43,143,910</u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Student tuition and fees	\$ 193,390,482	\$ 179,450,939
Scholarship allowances	(33,363,145)	(24,776,608)
Net student tuition and fees	<u>160,027,337</u>	<u>154,674,331</u>
Federal grants and contracts	10,486,459	8,051,015
Federal financial aid	2,760,161	2,397,833
State grants and contracts	852,541	591,360
State financial aid	671,970	3,184,092
Nongovernmental grants and contracts	1,377,605	1,435,464
Departmental activities	7,057,011	6,109,992
Auxiliary activities revenue - Net (Note 1)	32,577,628	31,916,970
Other	1,987,988	3,591,956
Total operating revenues	<u>217,798,700</u>	<u>211,953,013</u>
OPERATING EXPENSES		
Instruction	114,485,059	105,895,320
Research	5,574,705	5,078,686
Public service	14,309,799	11,047,380
Academic support	20,419,804	20,499,443
Student services	29,696,466	28,613,320
Institutional support	39,945,736	36,295,641
Scholarships and fellowships	28,537,990	23,943,955
Operation and maintenance of plant	22,660,336	29,807,585
Auxiliary activities expenses - Net (Note 1)	25,414,267	25,869,832
Depreciation	15,302,408	15,368,441
Other	427,078	1,205,933
Total operating expenses	<u>316,773,648</u>	<u>303,625,536</u>
Operating loss	<u>(98,974,948)</u>	<u>(91,672,523)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	75,965,595	78,551,800
Federal stabilization funds (ARRA)	2,080,316	-
Gifts	4,491,024	3,934,141
Investment income	5,375,956	5,454,618
Change in value of derivative instruments	(7,101,178)	(8,529,032)
Interest expense	(14,692,442)	(9,980,011)
Interest ARRA subsidy	1,280,051	-
Pell grants	29,929,900	17,207,674
Other	187,482	403,383
Net nonoperating revenues before capital items	<u>97,516,704</u>	<u>87,042,573</u>
Capital gifts	<u>55,144</u>	<u>1,393,586</u>
Total net nonoperating revenues	<u>97,571,848</u>	<u>88,436,159</u>
Decrease in net assets	(1,403,100)	(3,236,364)
NET ASSETS - Beginning of year restated (Note 8)	232,475,356	235,711,720
NET ASSETS - End of year	<u><u>\$ 231,072,256</u></u>	<u><u>\$ 232,475,356</u></u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
AND CHANGES IN NET ASSETS
Year ended June 30, 2010
(With comparative totals for year ended June 30, 2009)

	2010	2009
REVENUE, GAINS, AND OTHER SUPPORT		
Contributions	\$ 5,361,138	\$ 3,706,746
Investment income	831,914	894,051
Net realized and unrealized losses	4,571,161	(9,608,326)
ECMC revenue	-	206,666
Administrative and management fee	2,155,000	1,500,000
Other revenue	74,169	73,154
Total revenue, gains and other support	<u>12,993,382</u>	<u>(3,227,709)</u>
EXPENSES		
Contributions to EMU:		
Expendable contributions	\$ 4,677,940	\$ 2,470,357
Contributions from endowment income	1,175,038	1,375,346
Contribution of ECMC subsidiary	-	420,924
General and administrative - Foundation management	541,074	522,551
Fund raising	2,790,639	3,076,938
ECMC expenses	-	408,807
Other	4,593	4,474
Total expenses	<u>\$ 9,189,284</u>	<u>\$ 8,279,397</u>
Increase (Decrease) in Net Assets Before Other Changes in Net Assets	3,804,098	(11,507,106)
OTHER CHANGES IN NET ASSETS		
Funds transferred from EMU	21,491	6,200
Change in value of split-interest agreements	<u>(129,635)</u>	<u>(105,074)</u>
Increase (Decrease) in Net Assets	3,695,954	(11,605,980)
NET ASSETS - Beginning of year	39,955,987	51,561,967
NET ASSETS - End of year	<u><u>\$ 43,651,941</u></u>	<u><u>\$ 39,955,987</u></u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 196,451,028	\$ 179,740,988
Cash received from auxiliary activities	36,938,533	33,814,299
Cash received from other sources	10,067,636	10,821,201
Grants and contracts	12,867,559	16,025,406
Federal student loan funds received	-	119,038
Student loans granted - Net of repayments	(648,158)	(656,797)
Scholarship allowances	(37,709,147)	(28,010,132)
Cash paid to suppliers and employees	(222,784,087)	(238,719,017)
Cash paid for financial aid	(66,591,680)	(51,300,565)
Net cash used in operating activities	<u>(71,408,316)</u>	<u>(78,165,579)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	76,435,811	78,410,400
Cash received from Federal stabilization funds (ARRA)	2,080,316	-
Pell grants	29,929,902	17,207,676
Gifts received from EMU Foundation	4,733,637	5,508,571
Net cash provided by noncapital financing activities	<u>113,179,666</u>	<u>101,126,647</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments/defeasance under debt obligations	(3,835,000)	(129,730,000)
Proceeds from capital debt	-	228,175,000
Interest paid	(13,412,391)	(9,980,011)
Purchases of capital assets	(68,995,637)	(26,868,466)
Other	7,101,181	9,480,136
Net cash provided by (used in) capital and related financing activities	<u>(79,141,847)</u>	<u>71,076,659</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(1,104,812,049)	(709,289,105)
Proceeds from sales and maturities of investments	1,141,674,642	624,379,340
Interest received	5,182,976	5,355,439
Net cash provided by (used in) investing activities	<u>42,045,569</u>	<u>(79,554,326)</u>
Net (decrease) increase in cash and cash equivalents	4,675,072	14,483,401
CASH AND CASH EQUIVALENTS - Beginning of year	<u>28,796,228</u>	<u>14,312,827</u>
CASH AND CASH EQUIVALENTS - End of year	<u><u>\$ 33,471,300</u></u>	<u><u>\$ 28,796,228</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS		
Capital gifts received in kind	<u><u>\$ 55,144</u></u>	<u><u>\$ 47,527</u></u>

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (98,974,948)	\$ (91,672,523)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation expense	15,302,408	15,368,441
Changes in assets and liabilities:		
Accounts receivable - Net	517,567	(1,398,028)
Inventories	36,009	823,521
Deposits and prepaid expenses	(259,961)	(1,467,035)
Student loans receivable - Net	(552,254)	(558,554)
Accounts payable and accrued liabilities	11,497,659	(606,941)
Accrued payroll	802,883	94,936
Payroll taxes and accrued fringe benefits	(1,725,317)	235,315
Unearned fees and deposits	1,891,497	630,729
Insurance and other claims payable	136,647	246,713
Accrued compensated absences	(80,506)	137,847
Total change in assets and liabilities	<u>12,264,224</u>	<u>(1,861,497)</u>
Net cash used in operating activities	<u>\$ (71,408,316)</u>	<u>\$ (78,165,579)</u>

The accompanying notes are an integral part of this statement

EASTERN MICHIGAN UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
Years ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Increase (Decrease) in net assets	\$ 3,695,954	\$ (11,605,980)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	90,401	82,272
Loss on sale of property, equipment and subsidiary	-	202,141
Net realized and unrealized (gain) loss on investments	(4,571,160)	9,608,326
Change in value of split-interest agreements	129,635	105,074
Change in cash surrender value of life insurance	(18,029)	(1,318)
Contributions restricted for long-term purposes	(962,843)	(609,065)
Contribution of subsidiary interest	-	420,924
Changes in assets and liabilities:		
Contributions receivable	(569,353)	493,180
Accrued interest and dividends	58,915	29,435
Other assets	6,401	(68,074)
Accounts payable	450,641	(79,587)
Accrued and other liabilities	540	(2,663)
Net cash used in operating activities	\$ (1,688,898)	\$ (1,425,335)
Cash Flows from Investing Activities		
Purchases of equipment	\$ (82,497)	\$ (71,371)
Purchases of investments	(24,455,876)	(20,815,097)
Proceeds from the sale of investments	28,863,116	19,112,430
Proceeds from disposition of property, equipment and subsidiary	-	1
Net cash provided by (used in) investing activities	\$ 4,324,743	\$ (1,774,037)
Cash Flows from Financing Activities		
Net payments on mortgage	\$ (2,031,499)	\$ (143,374)
Payments on split-interest agreements	(156,022)	(152,606)
Proceeds from new split-interest agreements	65,611	-
Proceeds from contributions restricted for long-term purposes	962,843	609,065
Net cash provided by (used in) financing activities	\$ (1,159,067)	\$ 313,085
Net Increase (Decrease) in Cash and Cash Equivalents	1,476,778	(2,886,287)
Cash and Cash Equivalents - Beginning of year	2,727,039	5,613,326 *
Cash and Cash Equivalents - End of year	\$ 4,203,817	\$ 2,727,039
Supplemental Cash Flow Information - Cash paid for:		
Interest	\$ 113,655	\$ 106,654

*Reduction of \$127,927 due to ECMC transfer to the University

The accompanying notes are an integral part of this statement.

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 1-Basis of Presentation and Significant Accounting Policies**Basis of Presentation**

The financial statements of Eastern Michigan University (the "University") have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

- **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 in those assets.
- **Restricted, expendable** - Net assets subject to externally imposed constraints that they may be maintained permanently by the University, or net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.
- **Unrestricted** - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designed for specific purposes by action of management or the Board of Regents (the "Board") or may otherwise be limited by contractual agreements with outside parties. The University has committed the unrestricted net assets to provide for identified future needs, such as debt service, contractual obligations, capital outlay, academic programming, and postemployment benefits.

These statements have also been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 39). These criteria include significant operational or financial relationships with the University. Based on application of the criteria, the University has one component unit.

Summary of Significant Accounting Policies

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

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

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

Component Units of the University - The Eastern Michigan University Foundation financial statements are discretely presented as part of the University's reporting entity. These statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB). The officers of Eastern Michigan University Foundation include certain University administrative officials, but the University does have controlling interest in the Foundation's board. The Internal Revenue Service has determined that the Foundation is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

The Eastern Michigan University Foundation exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of Eastern Michigan University. A complete copy of the audited financial statements of Eastern Michigan University Foundation is available at the Foundation offices located near the campus of the University.

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

Inventories - Inventories consist primarily of supplies, food, pharmaceuticals, and bookstore items, and are stated at the lower of cost or market, with cost determined by the retail method.

Capital Assets - Capital assets are stated at cost if purchased or at appraised value at the date of the gift for donated property. Certain net assets have been designated to provide for significant repair and maintenance costs to residence facilities. Physical properties, with the exception of land, are depreciated on the straight-line method over the estimated useful service lives of the respective assets. Estimated service lives are as follows:

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

Bond Issuance Costs - Bond issuance costs are amortized over the life of the bonds based on the outstanding balance of the related debt using the straight-line method.

Unearned Fees and Deposits - 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. Retirement benefit costs are funded as accrued.

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

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

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

\$400,000 and \$3,614,000 as of June 30, 2010, respectively. The current portions of accrued sick leave and vacation leave were approximately \$400,000 and \$3,403,000 as of June 30, 2009, respectively.

Certain prior year balances have been reclassified to conform with the current year presentation. The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Auxiliary Activities - Auxiliary activities consist of the following as of June 30, 2010 and 2009:

	2010	2009
<u>Operating Revenues:</u>		
Auxiliary Activities, Gross	\$ 37,458,342	\$ 35,561,378
Less: Internal Sales	(534,712)	(410,884)
Less: Scholarship Allowances	(4,346,002)	(3,233,524)
Auxiliary Activities Revenue - Net	<u>\$ 32,577,628</u>	<u>\$ 31,916,970</u>
 <u>Operating Expenses:</u>		
Auxiliary Activities, Gross	\$ 30,294,981	\$ 29,514,240
Less: Internal Sales	(534,712)	(410,884)
Less: Scholarship Allowances	(4,346,002)	(3,233,524)
Auxiliary Activities Expenses - Net	<u>\$ 25,414,267</u>	<u>\$ 25,869,832</u>

Operating and Nonoperating Revenues - The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets is to report those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues as defined by GASB Statement No. 34, including State appropriations and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the University's department within the guidelines of donor restrictions, if any. Pell grant revenue is classified as nonoperating due to its nonexchange nature. The amounts received for 2010, 2009, and 2008 are \$29.9 million, \$17.2 million, and \$14.8 million, respectively.

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments

The University utilizes the pooled cash method of accounting for substantially all of its cash and cash equivalents. The University's investment policy, as set forth by the Board of Regents, authorizes investment in securities of the U.S. Treasury and agencies, corporate bonds and notes, commercial paper, time savings deposits, Eurodollars and certain external mutual funds, separate managed funds and other pooled funds. Restricted cash and investments represent unspent bond proceeds utilized for capital projects.

Cash and investments consist of the following as of June 30, 2010:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years	More than 10 years
Cash and cash equivalents:					
Unrestricted:					
Time Deposits	\$ 13,048,328	\$ 13,048,328	\$ -	\$ -	\$ -
Money market funds	15,615,776	15,615,776	-	-	-
Total unrestricted Cash and cash equivalents	\$ 28,664,104	\$ 28,664,104	\$ -	\$ -	\$ -
Restricted:					
Time Deposits	\$ 4,807,196	\$ 4,807,196	\$ -	\$ -	\$ -
Total Restricted cash and cash equivalents	\$ 4,807,196	\$ 4,807,196	\$ -	\$ -	\$ -
Short-term investments:					
Restricted:					
Certificates of deposit	\$ 4,129,782	\$ 4,129,782	\$ -	\$ -	\$ -
Government bonds	15,921,783	15,921,783	-	-	-
Total short-term restricted investments	\$ 20,051,565	\$ 20,051,565	\$ -	\$ -	\$ -
Long-term investments:					
Unrestricted					
Corporate bond mutual fund	\$ 45,046,285	\$ -	\$ 45,046,285	\$ -	\$ -
Government bonds	62,426	-	-	-	62,426
Domestic equities	9,829,659	-	-	9,829,659	-
Foreign equities	1,745,268	-	-	1,745,268	-
Total long-term unrestricted investments	\$ 56,683,638	\$ -	\$ 45,046,285	\$ 11,574,927	\$ 62,426
Restricted					
Certificates of deposit	\$ 9,527,427		\$ 9,527,427		
Corporate bond mutual fund	5,722,370		5,722,370		
Government bonds	10,215,740	-	10,215,740	-	-
Total long-term restricted investments	\$ 25,465,537	\$ -	\$ 25,465,537	\$ -	\$ -

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments (continued)

Cash and investments consist of the following as of June 30, 2009:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years	More than 10 years
Cash and cash equivalents:					
Unrestricted:					
Time Deposits	\$ 1,702,474	\$ 1,702,474	\$ -	\$ -	\$ -
Money market funds	27,093,754	27,093,754	-	-	-
Total unrestricted cash and cash equivalents	\$ 28,796,228	\$ 28,796,228	\$ -	\$ -	\$ -
Short-term investments:					
Unrestricted:					
Corporate bond mutual fund	\$ 65,767	\$ 65,767	\$ -	\$ -	\$ -
Government bonds	\$ 7,952,941	\$ 7,952,941	\$ -	\$ -	\$ -
Total short-term unrestricted investments	\$ 8,018,708	\$ 8,018,708	\$ -	\$ -	\$ -
Long-term investments:					
Unrestricted:					
Corporate bond mutual fund	\$ 45,368,394	\$ -	\$ 45,368,394	\$ -	\$ -
Government bonds	54,426	-	-	-	54,426
Total long-term unrestricted investments	\$ 45,422,820	\$ -	\$ 45,368,394	\$ -	\$ 54,426
Restricted:					
Government bonds	\$ 92,050,059	\$ 92,050,059	\$ -	\$ -	\$ -
Total long-term restricted investments	\$ 92,050,059	\$ 92,050,059	\$ -	\$ -	\$ -

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

<u>Asset Category</u>	<u>Target</u>
Fixed Income Securities	70%
Domestic Large Cap equities	15%
Domestic Mid Cap equities	7%
Domestic Small Cap equities	4%
Global/International equities	4%

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

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments (continued)

Credit Risk - Investment policies for cash and investments as set forth by the Board of Regents shall be to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. The University is not currently restricted to a minimum rating by Moody's Investor Service or equivalent rating. At June 30, 2010 and 2009, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	<u>2010</u>		<u>2009</u>	
	<u>Market Value</u>	<u>NRSRO Rating</u>	<u>Market Value</u>	<u>NRSRO Rating</u>
Bond Mutual Funds:				
Vanguard Short Term Investment -				
Grade Fund Admiral	\$ -		\$ 65,767	A3
Corporate Bonds	50,768,655	AA	45,368,394	AA
U.S. Government Agency Bonds	26,137,524	Aaa	92,170,252	Aaa
Total	<u>\$ 76,906,179</u>		<u>\$ 137,604,413</u>	

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

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the University will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The University's cash investment policy does not limit the value of deposits or investments that may be held by an outside party. Investments in external investment pools and in open-ended mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. All cash and cash equivalents are held in the University's name as of June 30, 2010 and 2009. As of June 30, 2010, the banks reported balances in the disbursement accounts at \$17,566,201. Of these balances, \$750,000 was covered by federal depository insurance and \$16,816,201 was uninsured and uncollateralized. As of June 30, 2009, the banks reported balances in the disbursement accounts at \$11,299,723. Of these balances, \$500,000 was covered by federal depository insurance and \$10,799,723 was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

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

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments (continued)

The following investments comprise more than 5% of the total investments portfolio as of June 30, 2010 and 2009:

June 30, 2010:

<u>Instrument</u>	<u>Fair Market Value</u>
Pimco Low Duration Inst Fund	\$ 7,683,730
Pimco Total Return Bond Fund	24,370,367
Western Asset Intermediate Bond Cl 1	7,718,442
Vanguard Inst Index VINIX	7,807,706
Total	<u>\$ 47,580,245</u>

June 30, 2009:

<u>Instrument</u>	<u>Fair Market Value</u>
PIMCO Low Duration Institutional PTLDX	\$ 15,187,951
Western Asset Intermed Institutional WATIX	30,180,443
US Treasury Bills 912795Q87	100,003,000
Vanguard Prime Money Market Fund VMRXX	20,100,819
Total	<u>\$ 165,472,213</u>

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2010 and 2009, the University had \$1,745,268 and \$65,767, respectively, invested in mutual funds that have funds invested in various countries throughout the world and therefore, exposes the University to foreign currency risk indirectly. The University did not have any direct investments or deposits denominated in foreign currencies at June 30, 2010 and 2009.

Investments at the Eastern Michigan University Foundation are as follows:

	<u>2010</u>	<u>2009</u>
Corporate stocks	\$ 23,490,166	\$ 26,280,837
Corporate bonds	3,522,949	5,365,020
Treasury/Federal securities	4,354,365	3,624,745
Venture capital	8,630	7,434
Real estate	55,000	55,000
Mutual funds	5,640,981	1,575,136
Total	<u>\$ 37,072,091</u>	<u>\$ 36,908,172</u>

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments (continued)

Net gains/losses from security transactions for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Unrealized appreciation (depreciation)	2,822,427	(3,788,169)
Realized income and losses	2,580,648	(4,926,106)
Total	<u>\$ 5,403,075</u>	<u>\$ (8,714,275)</u>

Trustee and brokerage fees associated with the maintenance of the endowment securities portfolio were \$383,786 and \$367,876 for the years ended June 30, 2010 and 2009, respectively, for Eastern Michigan University Foundation. For recording purposes, these fees have been netted with investment income.

Note 3 - Accounts Receivable

Accounts receivable consist of the following as of June 30, 2010 and 2009:

	2010	2009
Sponsor accounts	\$ 6,874,369	\$ 5,797,721
Student accounts	6,935,444	11,210,541
Charter school appropriation	4,153,897	3,826,568
Third party tuition	960,336	791,095
Other	3,347,261	3,047,946
Subtotal	<u>22,271,307</u>	<u>24,673,871</u>
Less allowances for possible collection losses	<u>(1,857,234)</u>	<u>(3,742,229)</u>
Accounts receivable - Net	<u>\$ 20,414,073</u>	<u>\$ 20,931,642</u>

In addition, the University has student loans receivable of \$12,532,789 and \$11,980,535, net of the related allowance of \$358,666 for both June 30, 2010 and 2009.

Included in contributions receivable for the Foundation are the following unconditional promises to give at June 30, 2010 and 2009:

	2010	2009
Contributions Receivable:		
Gross contributions promised	\$ 1,434,699	\$ 1,544,834
Less allowance for uncollectibles	<u>(385,422)</u>	<u>(1,027,044)</u>
Subtotal	1,049,277	517,790
Less unamortized discount	<u>(45,057)</u>	<u>(82,923)</u>
Net unconditional promises to give	<u>\$ 1,004,220</u>	<u>\$ 434,867</u>
Amounts due in:		
Less than one year	\$ 1,046,399	\$ 1,025,474
One to five years	388,300	512,860
More than five years	0	6,500
Total	<u>\$ 1,434,699</u>	<u>\$ 1,544,834</u>

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 4 - Capital Assets

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2010:

	2009	Additions/ Transfers	Retirements/ Transfers	2010
Non-depreciable:				
Land	\$ 11,079,068	\$ 575,000	\$ -	\$ 11,654,068
Construction-in-progress	14,912,292	48,414,516	(14,912,292)	48,414,516
Total non-depreciable	25,991,360	48,989,516	(14,912,292)	60,068,584
Depreciable:				
Infrastructure	32,680,730	1,245,933	-	33,926,663
Leasehold improvements	3,408,874	-	-	3,408,874
Buildings	394,758,622	23,830,178	-	418,588,800
Library holdings	46,144,327	2,622,431	-	48,766,758
Equipment	74,779,724	7,219,871	(2,428,162)	79,571,433
Total depreciable	551,772,277	34,918,413	(2,428,162)	584,262,528
Total capital assets	577,763,637	83,907,929	(17,340,454)	644,331,112
Less: Accumulated depreciation:				
Infrastructure	23,249,429	997,648	-	24,247,077
Leasehold improvements	3,323,088	85,504	-	3,408,592
Buildings	128,197,332	6,556,201	-	134,753,533
Library holdings	37,586,431	3,114,127	-	40,700,558
Equipment	59,310,643	4,548,928	(1,861,339)	61,998,232
Total accumulated depreciation	251,666,923	15,302,408	(1,861,339)	265,107,992
Capital assets - Net	\$ 326,096,714	\$ 68,605,521	\$ (15,479,115)	\$ 379,223,120

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 4 - Capital Assets (continued)

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2009:

	2008	Additions/ Transfers	Retirements/ Transfers	2009
Non-depreciable:				
Land	\$ 11,079,068	\$ -	\$ -	\$ 11,079,068
Construction-in-progress	3,163,248	14,912,292	(3,163,248)	14,912,292
Total non-depreciable	14,242,316	14,912,292	(3,163,248)	25,991,360
Depreciable:				
Infrastructure	32,481,685	199,045	-	32,680,730
Leasehold improvements	3,408,874	-	-	3,408,874
Buildings	387,154,790	7,603,832	-	394,758,622
Library holdings	43,566,295	2,578,032	-	46,144,327
Equipment	70,945,416	4,738,513	(904,205)	74,779,724
Total depreciable	537,557,060	15,119,422	(904,205)	551,772,277
Total capital assets	551,799,376	30,031,714	(4,067,453)	577,763,637
Less: Accumulated depreciation:				
Infrastructure	22,293,581	955,848	-	23,249,429
Leasehold improvements	3,152,644	170,444	-	3,323,088
Buildings	121,791,031	6,406,301	-	128,197,332
Library holdings	34,440,795	3,145,636	-	37,586,431
Equipment	55,463,284	4,690,212	(842,853)	59,310,643
Total accumulated depreciation	237,141,335	15,368,441	(842,853)	251,666,923
Capital assets - Net	\$ 314,658,041	\$ 14,663,273	\$ (3,224,600)	\$ 326,096,714

The University has encumbrances of \$63,273,364 on various construction projects in progress as of June 30, 2010.

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

EASTERN MICHIGAN UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Long-term Debt

Long-term debt consists of the following as of June 30, 2010 and 2009:

	Interest		<u>Outstanding Principal</u>				
	Rates	Maturity	2009	Additions	Retirements/ defeasance	2010	Current Portion
Build America							
Bonds of 2009D	4.21 - 7.21	2014-2038	\$ 79,220,000	\$ -	\$ -	\$ 79,220,000	\$ -
General Revenue							
Bonds of 2009C	4.00 - 5.00	2022-2027	23,160,000	-	-	23,160,000	-
Refunding Bonds of 2009B	variable	2038-2049	50,795,000	-	-	50,795,000	-
Refunding Bonds of 2009A	variable	2038-2049	75,000,000	-	-	75,000,000	-
Refunding Bonds of 2003A	2.00 - 5.00	2010-2014	4,840,000	-	900,000	3,940,000	925,000
General Revenue							
Bonds of 2002B	3.00-5.00	2010-2013	945,000	-	225,000	720,000	230,000
General Revenue							
Bonds of 2002A	5.8	2010-2014	7,415,000	-	1,935,000	5,480,000	1,695,000
General Revenue							
Bonds of 2000B	4.50-5.875	2010-2011	615,000	-	300,000	315,000	315,000
General Revenue							
Bonds of 2000	5.00-6.00	2010-2024	2,805,000	-	475,000	2,330,000	445,000
			244,795,000	\$ -	\$ 3,835,000	240,960,000	\$ 3,610,000
Less current portion long-term debt			3,835,000			3,610,000	
Long-term debt			<u>\$ 240,960,000</u>			<u>\$ 237,350,000</u>	

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Long-term Debt (continued)

Long-term debt consists of the following as of June 30, 2009 and 2008:

	Interest		<u>Outstanding Principal</u>				
	Rates	Maturity	2008	Additions	Retirements/ defeasance	2009	Current Portion
Build America							
Bonds of 2009D	4.21 - 7.21	2014-2038	\$ -	\$ 79,220,000	\$ -	\$ 79,220,000	\$ -
General Revenue							
Bonds of 2009C	4.00 - 5.00	2022-2027	-	23,160,000	-	23,160,000	-
Refunding Bonds							
of 2009B	variable	2038-2049	-	50,795,000	-	50,795,000	-
Refunding Bonds							
of 2009A	variable	2038-2049	-	75,000,000	-	75,000,000	-
Refunding Bonds							
of 2008	variable	2009	125,795,000	-	125,795,000	-	-
Refunding Bonds							
of 2003A	2.00 - 5.00	2009-2014	5,690,000	-	850,000	4,840,000	900,000
General Revenue							
Bonds of 2002B	3.00-5.00	2009-2013	1,160,000	-	215,000	945,000	225,000
General Revenue							
Bonds of 2002A	5.8	2009-2014	9,515,000	-	2,100,000	7,415,000	1,935,000
General Revenue							
Bonds of 2000B	4.50-5.875	2009-2011	900,000	-	285,000	615,000	300,000
General Revenue							
Bonds of 2000	5.00-6.00	2009-2024	3,290,000	-	485,000	2,805,000	475,000
			146,350,000	\$228,175,000	\$ 129,730,000	244,795,000	\$ 3,835,000
Less current portion long-term debt			5,790,000			3,835,000	
Long-term debt			\$ 140,560,000			\$ 240,960,000	

On May 5, 2009, the University issued \$75,000,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2009A, and \$50,795,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2009B. These bonds refunded \$125,795,000 General Revenue Variable Rate Demand Refunding Bonds, Series 2009. 2009 Series A&B bonds amortize over 40 years with principal payments beginning June 30, 2038.

On June 10, 2009, the University issued \$102,380,000 of General Revenue Bonds, Series 2009C and 2009D, to fund capital projects. Series 2009C for \$23,160,000 are tax-exempt bonds. Series 2009D for \$79,220,000 are taxable issuer Build America Bonds authorized by Section 1531 of the American Recovery and Reinvestment Act of 2009. The University will receive payments from the Federal Treasury equal to 35% of the total coupon interest paid by the University.

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 5 – Long-term Debt (continued)

On April 10, 2008, the University issued \$125,795,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2008. These were issued to refund the \$41,395,000 General Revenue and Refunding Bonds 2001 and the \$85,680,000 General Revenue and Refunding Bonds Series 2006A bonds.

The Series 2008 bonds were refunded during fiscal year 2009 as indicated above due to market conditions.

As bonds are defeased, certain funds that will be paid to bondholders are deposited in trust and distributions are made by the trustee accordingly. The trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in the financial statements of the University. At June 30, 2010 and 2009, the aggregate amount of outstanding principal on all bonds which have been defeased is \$46,446,330 and \$60,096,350, respectively.

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

Principal and interest on long-term debt are payable from operating revenues, allocated student fees and the excess of revenues over expenditures of specific auxiliary activities. The obligations are generally callable. 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>
2011	3,610,000	14,344,659	17,954,659
2012	3,205,000	14,156,593	17,361,593
2013	2,965,000	13,985,126	16,950,126
2014	2,460,000	13,827,765	16,287,765
2015	2,580,000	13,678,301	16,258,301
2016 - 2020	14,540,000	65,574,494	80,114,494
2021 - 2025	18,275,000	59,752,616	78,027,616
2026 - 2030	23,415,000	53,186,411	76,601,411
2031 – 2035	29,275,000	43,926,320	73,201,320
2036 – 2040	37,965,000	32,423,078	70,388,078
2041 – 2045	50,940,000	20,581,499	71,521,499
2046 – 2049	<u>51,730,000</u>	<u>6,102,725</u>	<u>57,832,725</u>
Total	<u>\$ 240,960,000</u>	<u>\$ 351,539,587</u>	<u>\$ 592,499,587</u>

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 5 – Long-term Debt (continued)

Interest Rate Swaps:

The University currently holds three interest rate swap instruments. The University entered into three of the agreements at the same time and for the same as the issuance of certain variable rate debt with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly. The University entered into a single mini swap while refunding \$125,795,000 in variable rate debt for a notional amount of \$2,490,000 to replace, over time, the amortizing notional amounts of the 2001 swap and the 2006 swap. The intention of the 2009 swap was to retain an effective synthetic fixed rate for the 2009A and 2009B bonds. All of the swap agreements are deemed ineffective hedges at June 30, 2010. The ineffective swap agreements did not utilize consistent critical terms as the underlying variable rate debt and a calculation of the actual cash flows demonstrates a difference from fixed rate cash flows.

As of June 30, 2010, the swap agreements can be summarized as follows:

	Changes in Fair Value of derivative instruments at June 30:		Fair Value of Derivative Instruments at June 30:		Outstanding Notional Amount at June 30:
Cash flow hedges: Pay fixed interest rate swap (receive variable)					
	2010	\$ (7,101,178)	2010	\$ (22,439,956)	\$ 124,830,000
	2009	\$ (8,529,032)	2009	\$ (15,338,778)	\$ 125,795,000

Due to the swaps being considered ineffective hedges, the change in fair value annually is recorded as a component of nonoperating revenue in the Statement of Revenues, Expenses and Changes in Net Assets.

The fair value of the interest rate swaps were estimated on a midmarket values and do not include bid/offer spread that would be reflected in an actual price quotation. Such mid-market values attempt to approximate the current economic value of a given position using prices and rates at the average of the estimated bid and offer for respective underlying asset(s) or reference rate(s) and/or mathematical models, as we have deemed appropriate. In absence of sufficient or meaningful market information available to us, such valuations, or the components thereof, may be theoretical in whole or in part. Discussions of the trade values in general, and indicative or firm price quotations and actual trade prices in particular, may vary significantly from these written estimated values as a result of various factors, which may include (but not limited to) prevailing credit spreads, market liquidity, position size, transaction and financing costs.

EASTERN MICHIGAN UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

Note 5 –Long-term Debt (continued)

Effective Date	Type	Objective	Notional Amount	Pay terms	Receive terms	Maturity date	Counterparty credit rating
8/29/2001	Pay-fixed, Receive variable	Cash flow hedge for Series 2001	\$15,890,000 \$23,835,000	4.72%	40% - SIFMA 60% - 68% of LIBOR	6/1/2026	Aa1 (Moody's) AA- (Standard & Poor's)
2/22/2006	Pay-fixed, Receive variable	Cash flow hedge for Series 2006	\$82,615,000	3.317%	62% libor + 20 bps	5/1/2036	A2 (Moody's) A (Standard & Poor's)
6/2/2009	Pay-fixed, Receive variable	Cash flow hedge for Series 2009	\$2,490,000	3.096%	68% LIBOR	3/1/2049	A1 (Moody's) AA- (Standard & Poor's)

Credit risk The University is not exposed to credit risk on the hedging derivative instruments because they are in a liability position.

Interest rate risk The University is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the Securities Industry and Financial Markets Association (SIFMA) swap decreases, the University's net payment on the swap increases.

Basis Risk The University is exposed to basis risk on its LIBOR –based swaps due to variable-rate payments received by the University on these instruments based on a rate of index other than interest rates the University pays on its variable-rate debt, which is remarketed every 30 days. As of June 30, 2010, the weighted-average interest rate on the University's hedged variable-rate debt is 0.16 percent, while the SIFMA swap index rate is 0.25 percent and 68 percent of LIBOR is 0.237 percent.

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

Using rates as of June 30, 2010, debt service requirements of the variable rate debt associated with the 2001 swap agreement, 2006 swap agreement, and the 2009 swap agreement and net swap payments, assuming current interest rates remain the same for term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 5 –Long-term Debt (continued)

Variable Rate Bonds Associated with
2009 Bonds Swap Agreement

Fiscal Year	Principal	Fixed Interest Paid	Variable Interest Paid	Net Counterparty Interest Exchanged	Total Paid
2011	\$ -	\$ 4,722,326	\$ 201,272	\$ (448,081)	\$ 4,475,517
2012	-	4,717,052	201,272	(446,691)	4,471,633
2013	-	4,710,304	201,272	(444,173)	4,467,403
2014	-	4,703,408	201,272	(441,602)	4,463,078
2015	-	4,675,446	201,272	(438,606)	4,438,112
2016-2020	-	22,724,396	1,006,360	(2,110,440)	21,620,316
2021-2025	-	21,437,397	1,006,360	(1,958,747)	20,485,010
2026-2030	-	20,009,918	1,006,360	(1,778,495)	19,237,783
2031-2035	-	18,981,940	976,472	(1,517,033)	18,441,379
2036-2040	23,125,000	18,689,058	965,744	(1,432,057)	41,347,745
2041-2045	50,940,000	12,907,379	667,048	(988,065)	63,526,362
2046-2049	51,730,000	4,110,714	212,440	(314,677)	55,738,477
Total	\$ 125,795,000	\$ 142,389,338	\$ 6,847,144	\$ (12,318,667)	\$ 262,712,815

Capitalized Bond Expenses, Net as of June 30, 2010 include:

Series	Capitalized Amount	Accumulated Amortization	Capitalized Bond Expenses, Net
2009C&D	\$ 1,453,516	\$ -	\$ 1,453,516
2009A&B	536,076	-	536,076
2003	241,385	132,881	108,504
2002A	285,616	164,229	121,387
2002B	185,556	117,960	67,596
2000A	63,145	24,673	38,472
2000B	145,867	123,936	21,931
Total	\$ 2,911,161	\$ 563,679	\$ 2,347,482

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 5 –Long-term Debt (continued)

Capitalized Bond Expenses, Net as of June 30, 2009 include:

Series	Capitalized Amount	Accumulated Amortization	Capitalized Bond Expenses, Net
2009C&D	\$ 1,453,516	\$ -	\$ 1,453,516
2009A&B	536,076	-	536,076
2008	670,000	670,000	-
2006	6,450,709	6,450,709	-
2006	511,660	511,660	-
2003	241,385	108,121	133,264
2002A	285,616	133,883	151,733
2002B	185,556	95,429	90,127
2001	361,027	361,027	-
2000A	63,145	21,925	41,220
2000B	145,867	98,217	47,650
Total	\$ 10,904,557	\$ 8,450,971	\$ 2,453,586

Note 6 - Retirement Benefits

Through December 31, 1995, the University offered participation in one of two retirement plans for all qualified employees: the Michigan Public School Employees' Retirement System ("MPERS") and the Teachers Insurance and Annuities Association - College Retirement Equities Fund ("TIAA-CREF"). 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 \$5,945,000, \$6,036,000, and \$5,080,000, for the years ended June 30, 2010, 2009, and 2008, 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 years ended June 30, 2010, 2009, and 2008, the University contributed

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 6 - Retirement Benefits (continued)

approximately \$12,184,000, \$11,404,000, and \$10,640,000, respectively, to the TIAA-CREF plan. The University has no liability beyond its own contribution under the TIAA-CREF plan.

The University provides termination benefits upon retirement resulting from unused sick days. The University calculates its sick pay liability in accordance with the provisions of GASB Statement No.16, *Accounting for Compensated Absences*. The liability is approximately \$5,223,000 and \$5,244,000 as of June 30, 2010 and 2009, respectively. Approximately \$400,000 is included in accrued payroll, taxes, and fringe benefits for the years ended June 30, 2010 and 2009. The remaining portion is included in accrued compensated absences.

Note 7 - Contingencies and Commitments

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

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

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

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

Under current accounting standards, the University is required to estimate expected pollution remediation outlays, when specified obligating events occur, and to determine whether these outlays should be accrued for as a liability. As a result, the University has accrued an abatement liability for approximately \$1,036,000 and \$0 for the years ended June 30, 2010 and 2009, respectively.

Note 8 – Restatement of Net Assets due to Accounting Change

The Governmental Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in 2008. The Statement is effective for financial statements for reporting periods beginning after June 15, 2009, therefore for the fiscal year ending June 30, 2010. Statement No. 53 is intended to improve the reporting of derivative instruments, specifically requiring measuring most derivative instruments at fair value in financial statements that are prepared using the accrual basis of accounting. The fair value of an ineffective hedged derivative instrument is reported on the statement of net assets and the change in fair value is reported in the statement of revenue, expenses and changes in net assets as investment gains or losses.

EASTERN MICHIGAN UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

Note 8 – Restatement of Net Assets due to Accounting Change (continued)

The University has implemented GASB 53 effective for the year ended June 30, 2010. The statement is to be retroactively applied to the earliest year presented. As a result, the University has restated beginning net assets, nonoperating revenues, and liabilities for the years ended June 30, 2008 by (\$6,809,746) and June 30, 2009 by (\$8,529,032)

Report of Independent Auditors on Supplemental Information

To the Board of Regents
Eastern Michigan University

The report on our audit of the financial statements of Eastern Michigan University (the "University") as of June 30, 2010 and 2009 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 the purpose 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.

September xx, 2010

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EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF NET ASSETS
BY FUND
as of June 30, 2010

	General Fund	Designated Fund	Auxiliary Activities Fund
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 31,567,899	\$ 8,219,569	\$ 1,640,851
Cash and cash equivalents - restricted	-	-	-
Short-term investments - restricted	-	-	-
Accounts receivable - Net	6,226,204	280,969	2,443,319
Appropriation receivable	13,811,930	-	-
Inventories	410,294	-	498,515
Deposits and prepaid expenses	485,532	499	210,787
Accrued interest receivable	144,602	3,798	-
Total current assets	<u>52,646,461</u>	<u>8,504,835</u>	<u>4,793,472</u>
Noncurrent assets:			
Student loans receivable - Net	-	-	-
Long-term investments - unrestricted	-	-	-
Long-term investments - restricted	-	-	-
Capital assets - Net	-	-	-
Capitalized bond expenses - Net	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 52,646,461</u>	<u>\$ 8,504,835</u>	<u>\$ 4,793,472</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	3,036,597	506,268	2,007,266
Accrued payroll	10,912,472	-	-
Payroll taxes and accrued fringe benefits	6,575,002	-	872,569
Unearned fees and deposits	8,209,060	49,489	381,146
Insurance and other claims payable	1,378,079	-	643,590
Total current liabilities	<u>30,111,210</u>	<u>555,757</u>	<u>3,904,571</u>
Noncurrent liabilities:			
Accrued compensated absences	4,398,145	-	365,138
Long-term debt	-	-	-
Fair value of derivative instruments	-	-	-
Federal Perkins	-	-	-
Total noncurrent liabilities	<u>4,398,145</u>	<u>-</u>	<u>365,138</u>
Total liabilities	<u>\$ 34,509,355</u>	<u>\$ 555,757</u>	<u>\$ 4,269,709</u>
NET ASSETS			
Invested in capital assets - Net of related debt restated	\$ -	\$ -	\$ -
Restricted, expendable	-	-	-
Unrestricted			
Designated	-	7,949,078	523,763
Undesignated	18,137,106	-	-
Total net assets	<u>\$ 18,137,106</u>	<u>\$ 7,949,078</u>	<u>\$ 523,763</u>

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF NET ASSETS
BY FUND
as of June 30, 2010

<u>Expendable Restricted Fund</u>	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>	<u>Consolidated Total</u>
\$ 943,873	\$ (694,774)	\$ (13,643,554)	\$ 630,240	\$ 28,664,104
-	-	4,807,196	-	4,807,196
-	-	20,051,565	-	20,051,565
10,478,810	501,202	483,569	-	20,414,073
-	-	-	-	13,811,930
-	-	-	-	908,809
99,085	-	645,775	-	1,441,678
	379	207,229		356,008
<u>11,521,768</u>	<u>(193,193)</u>	<u>12,551,780</u>	<u>630,240</u>	<u>90,455,363</u>
-	12,532,789	-	-	12,532,789
59,555	-	56,624,083	-	56,683,638
-	-	25,465,537	-	25,465,537
-	-	379,223,120	-	379,223,120
-	-	2,347,482	-	2,347,482
<u>59,555</u>	<u>12,532,789</u>	<u>463,660,222</u>	<u>-</u>	<u>476,252,566</u>
\$ <u>11,581,323</u>	\$ <u>12,339,596</u>	\$ <u>476,212,002</u>	\$ <u>630,240</u>	\$ <u>566,707,929</u>
\$ -	\$ -	\$ 3,610,000	\$ -	\$ 3,610,000
4,219,060	-	16,288,133	288	26,057,612
-	-	-	-	10,912,472
-	-	-	-	7,447,571
26,778	-	940,447	629,952	10,236,872
-	-	-	-	2,021,669
<u>4,245,838</u>	<u>-</u>	<u>20,838,580</u>	<u>630,240</u>	<u>60,286,196</u>
-	-	-	-	4,763,283
-	-	237,350,000	-	237,350,000
-	-	22,439,956	-	22,439,956
-	10,796,240	-	-	10,796,240
-	10,796,240	259,789,956	-	275,349,479
\$ <u>4,245,838</u>	\$ <u>10,796,240</u>	\$ <u>280,628,536</u>	\$ <u>630,240</u>	\$ <u>335,635,675</u>
\$ -	\$ -	\$ 166,147,463	\$ -	\$ 166,147,463
7,335,485	1,543,356	-	-	8,878,841
-	-	-	-	-
-	-	29,436,005	-	37,908,846
-	-	-	-	18,137,106
\$ <u>7,335,485</u>	\$ <u>1,543,356</u>	\$ <u>195,583,468</u>	\$ <u>-</u>	\$ <u>231,072,256</u>

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
BY FUND
For June 30, 2010

	General Fund	Designated Fund	Auxiliary Fund
OPERATING REVENUES			
Student tuition and fees	\$ 192,496,007	\$ 166,410	\$ -
Scholarship allowances	-	-	-
Net student tuition and fees	<u>192,496,007</u>	<u>166,410</u>	<u>-</u>
Federal grants and contracts	-	-	-
Federal financial aid	-	-	-
State grants and contracts	-	-	-
State financial aid	-	-	-
Nongovernmental grants and contracts	-	23,534	-
Departmental activities	2,540,585	4,516,426	-
Auxiliary activities - Net	-	-	36,923,630
Indirect cost recovery (deduction)	723,077	969,142	-
Other	1,296,846	-	-
Total operating revenues	<u>197,056,515</u>	<u>5,675,512</u>	<u>36,923,630</u>
OPERATING EXPENSES			
Instruction	113,859,894	450,248	-
Research	1,056,079	205,809	-
Public service	3,844,315	91,783	-
Academic support	19,538,756	525,583	-
Student services	26,420,906	2,448,484	-
Institutional support	38,570,004	848,235	-
Scholarships and fellowships	27,499,658	-	-
Operation and maintenance of plant	22,000,775	135,393	-
Auxiliary activities expenses - Net	-	-	29,760,269
Depreciation	-	-	-
Capital additions - Net	3,709,165	171,964	161,647
Other	-	-	-
Total operating expenses	<u>256,499,552</u>	<u>4,877,499</u>	<u>29,921,916</u>
Operating income (loss)	<u>(59,443,037)</u>	<u>798,013</u>	<u>7,001,714</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	75,965,595	-	-
Gifts	-	(76,642)	-
Investment income	3,159,927	-	614,183
Change in value of derivative instruments	-	-	-
Interest expense	-	-	-
Interest ARRA subsidy	-	-	-
Federal stabilization funds (ARRA)	-	-	-
Pell grants	-	-	-
Other	-	-	-
Net nonoperating revenues (expenses) before transfers and capital items	<u>79,125,522</u>	<u>(76,642)</u>	<u>614,183</u>
TRANSFERS IN (OUT)			
Mandatory:			
Funds for debt service	(8,468,000)	-	(3,306,330)
Matching funds	(500,293)	-	-
Non-mandatory:			
Other	(9,387,201)	1,664,986	(4,421,372)
Total transfers	<u>(18,355,494)</u>	<u>1,664,986</u>	<u>(7,727,702)</u>
Capital grants and gifts	-	-	-
Total net nonoperating revenues (expenses)	<u>60,770,028</u>	<u>1,588,344</u>	<u>(7,113,519)</u>
Increase (Decrease) in net assets	1,326,991	2,386,357	(111,805)
NET ASSETS, Beginning of year restated	16,810,115	5,562,721	635,568
NET ASSETS, End of year	<u>\$ 18,137,106</u>	<u>\$ 7,949,078</u>	<u>\$ 523,763</u>

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
BY FUND
For June 30, 2010

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Eliminations	Consolidated
728,065 \$	- \$	- \$	- \$	193,390,482
-	-	-	(33,363,145)	(33,363,145)
728,065	-	-	(33,363,145)	160,027,337
10,486,459	-	-	-	10,486,459
2,760,161	-	-	-	2,760,161
852,541	-	-	-	852,541
671,970	-	-	-	671,970
1,354,071	-	-	-	1,377,605
-	-	-	-	7,057,011
-	-	-	(4,346,002)	32,577,628
(1,692,219)	-	-	-	-
710,330	36,305	(55,493)	-	1,987,988
15,871,378	36,305	(55,493)	(37,709,147)	217,798,700
174,917	-	-	-	114,485,059
4,312,817	-	-	-	5,574,705
10,373,701	-	-	-	14,309,799
355,465	-	-	-	20,419,804
827,076	-	-	-	29,696,466
527,497	-	-	-	39,945,736
34,401,477	-	-	(33,363,145)	28,537,990
6,228	-	517,940	-	22,660,336
-	-	-	(4,346,002)	25,414,267
-	-	15,302,408	-	15,302,408
550,155	-	(4,592,931)	-	-
-	257,425	169,653	-	427,078
51,529,333	257,425	11,397,070	(37,709,147)	316,773,648
(35,657,955)	(221,120)	(11,452,563)	-	(98,974,948)
-	-	-	-	75,965,595
3,746,094	-	821,572	-	4,491,024
-	136,757	1,465,089	-	5,375,956
-	-	(7,101,178)	-	(7,101,178)
-	-	(14,692,442)	-	(14,692,442)
-	-	1,280,051	-	1,280,051
2,080,316	-	-	-	2,080,316
29,929,900	-	-	-	29,929,900
187,475	-	7	-	187,482
35,943,785	136,757	(18,226,901)	-	97,516,704
-	-	11,774,330	-	-
500,293	-	-	-	-
(689,213)	-	12,832,800	-	-
(188,920)	-	24,607,130	-	-
-	-	55,144	-	55,144
35,754,865	136,757	6,435,373	-	97,571,848
96,910	(84,363)	(5,017,190)	-	(1,403,100)
7,238,575	1,627,719	200,600,658	-	232,475,356
7,335,485 \$	1,543,356 \$	195,583,468 \$	- \$	231,072,256

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF NET ASSETS
BY FUND
as of June 30, 2009

	General Fund	Designated Fund	Auxiliary Activities Fund
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ (19,081,159)	\$ 5,538,222	\$ 2,832,128
Short-term investments - unrestricted	-	-	-
Accounts receivable - Net	8,381,410	205,052	2,417,787
Appropriation receivable	14,282,146	-	-
Inventories	472,079	-	472,739
Deposits and prepaid expenses	352,538	(1)	132,741
Accrued interest receivable	144,602	3,798	-
Total current assets	<u>4,551,616</u>	<u>5,747,071</u>	<u>5,855,395</u>
Noncurrent assets:			
Student loans receivable - Net	-	-	-
Long-term investments - unrestricted	45,368,394	-	-
Long-term investments - restricted	-	-	-
Capital assets - Net	-	-	-
Capitalized bond expenses - Net	-	-	-
Total noncurrent assets	<u>45,368,394</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 49,920,010</u>	<u>\$ 5,747,071</u>	<u>\$ 5,855,395</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2,920,645	78,730	2,364,363
Accrued payroll	9,279,877	49,187	475,314
Payroll taxes and accrued fringe benefits	8,039,844	6,901	1,126,143
Unearned fees and deposits	7,054,275	49,269	340,711
Insurance and other claims payable	1,291,609	-	593,413
Total current liabilities	<u>28,586,250</u>	<u>184,087</u>	<u>4,899,944</u>
Noncurrent liabilities:			
Accrued compensated absences	4,523,645	263	319,883
Long-term debt	-	-	-
Fair value of derivative instruments	-	-	-
Federal Perkins	-	-	-
Total noncurrent liabilities	<u>4,523,645</u>	<u>263</u>	<u>319,883</u>
Total liabilities	<u>\$ 33,109,895</u>	<u>\$ 184,350</u>	<u>\$ 5,219,827</u>
NET ASSETS			
Invested in capital assets - Net of related debt restated	\$ -	\$ -	\$ -
Restricted, expendable	-	-	-
Unrestricted			
Designated	-	5,562,721	635,568
Undesignated	16,810,115	-	-
Total net assets	<u>\$ 16,810,115</u>	<u>\$ 5,562,721</u>	<u>\$ 635,568</u>

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF NET ASSETS
BY FUND
as of June 30, 2009

<u>Expendable Restricted Fund</u>	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>	<u>Consolidated Total</u>
\$ 3,275,665	\$ 74,054	\$ 35,275,519	\$ 881,799	\$ 28,796,228
-	-	8,018,708	-	8,018,708
8,185,253	368,991	1,373,149	-	20,931,642
-	-	-	-	14,282,146
-	-	-	-	944,818
-	-	696,439	-	1,181,717
-	379	14,247	-	163,026
<u>11,460,918</u>	<u>443,424</u>	<u>45,378,062</u>	<u>881,799</u>	<u>74,318,285</u>
-	11,980,535	-	-	11,980,535
54,426	-	-	-	45,422,820
-	-	92,050,059	-	92,050,059
-	-	326,096,714	-	326,096,714
-	-	2,453,586	-	2,453,586
<u>54,426</u>	<u>11,980,535</u>	<u>420,600,359</u>	<u>-</u>	<u>478,003,714</u>
<u>\$ 11,515,344</u>	<u>\$ 12,423,959</u>	<u>\$ 465,978,421</u>	<u>\$ 881,799</u>	<u>\$ 552,321,999</u>
\$ -	\$ -	\$ 3,835,000	\$ -	\$ 3,835,000
3,949,836	-	5,243,985	2,402	14,559,961
305,211	-	-	-	10,109,589
-	-	-	-	9,172,888
21,722	-	-	879,397	8,345,374
-	-	-	-	1,885,022
<u>4,276,769</u>	<u>-</u>	<u>9,078,985</u>	<u>881,799</u>	<u>47,907,834</u>
-	-	-	-	4,843,791
-	-	240,960,000	-	240,960,000
-	-	15,338,778	-	15,338,778
-	10,796,240	-	-	10,796,240
-	10,796,240	256,298,778	-	271,938,809
<u>\$ 4,276,769</u>	<u>\$ 10,796,240</u>	<u>\$ 265,377,763</u>	<u>\$ 881,799</u>	<u>\$ 319,846,643</u>
\$ -	\$ -	158,012,995	\$ -	\$ 158,012,995
7,238,575	1,627,719	-	-	8,866,294
-	-	42,587,663	-	48,785,952
-	-	-	-	16,810,115
<u>\$ 7,238,575</u>	<u>\$ 1,627,719</u>	<u>\$ 200,600,658</u>	<u>\$ -</u>	<u>\$ 232,475,356</u>

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
BY FUND
For June 30, 2009

	General Fund	Designated Fund	Auxiliary Fund
OPERATING REVENUES			
Student tuition and fees	\$ 178,411,514	\$ 255,666	\$ -
Scholarship allowances	-	-	-
Net student tuition and fees	178,411,514	255,666	-
Federal grants and contracts	-	-	-
Federal financial aid	-	-	-
State grants and contracts	-	-	-
State financial aid	-	-	-
Nongovernmental grants and contracts	-	7,235	-
Departmental activities	2,215,092	3,894,900	-
Auxiliary activities revenue, net	-	-	35,150,494
Indirect cost recovery (deduction)	610,396	755,038	-
Other	1,670,046	-	-
Total operating revenues	182,907,048	4,912,839	35,150,494
OPERATING EXPENSES			
Instruction	104,670,700	464,873	-
Research	1,109,959	363,983	-
Public service	3,602,160	6,847	-
Academic support	19,805,230	606,939	-
Student services	25,174,830	2,685,652	-
Institutional support	35,537,362	404,827	-
Scholarships and fellowships	24,912,635	(500)	-
Operation and maintenance of plant	24,755,302	31,225	-
Auxiliary activities expenses, net	-	-	29,103,356
Depreciation	-	-	-
Capital additions, net	4,987,145	84,557	101,416
Other	-	-	-
Total operating expenses	244,555,323	4,648,403	29,204,772
Operating income (loss)	(61,648,275)	264,436	5,945,722
NONOPERATING REVENUES (EXPENSES)			
State appropriations	78,551,800	-	-
Gifts	-	(163,939)	421,925
Investment income	4,590,367	-	732,203
Change in value of derivative instruments	-	-	-
Interest expense	-	-	-
Pell grants	-	-	-
Other	-	-	-
Net nonoperating revenues (expenses) before transfers and capital items	83,142,167	(163,939)	1,154,128
TRANSFERS IN (OUT)			
Mandatory:			
Funds for debt service	(12,273,513)	-	(3,608,901)
Matching funds	(99,817)	823	-
Non-mandatory:			
Other	(7,511,483)	(326,006)	(3,196,163)
Total transfers	(19,884,813)	(325,183)	(6,805,064)
Capital grants and gifts	-	-	-
Total net nonoperating revenues (expenses)	63,257,354	(489,122)	(5,650,936)
Increase (Decrease) in net assets	1,609,079	(224,686)	294,786
NET ASSETS, Beginning of year restated	15,201,036	5,787,407	340,782
NET ASSETS, End of year	\$ 16,810,115	\$ 5,562,721	\$ 635,568

EASTERN MICHIGAN UNIVERSITY
SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
BY FUND
For June 30, 2009

<u>Expendable Restricted Fund</u>	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 783,759	\$ -	\$ -	\$ -	\$ 179,450,939
-	-	-	(24,776,608)	(24,776,608)
783,759	-	-	(24,776,608)	154,674,331
7,931,977	119,038	-	-	8,051,015
2,397,833	-	-	-	2,397,833
591,360	-	-	-	591,360
3,184,092	-	-	-	3,184,092
1,428,229	-	-	-	1,435,464
-	-	-	-	6,109,992
-	-	-	(3,233,524)	31,916,970
(1,365,434)	-	-	-	-
1,072,893	34,998	814,019	-	3,591,956
16,024,709	154,036	814,019	(28,010,132)	211,953,013
759,747	-	-	-	105,895,320
3,604,744	-	-	-	5,078,686
7,438,373	-	-	-	11,047,380
87,274	-	-	-	20,499,443
752,838	-	-	-	28,613,320
353,452	-	-	-	36,295,641
23,808,428	-	-	(24,776,608)	23,943,955
27,276	-	4,993,782	-	29,807,585
-	-	-	(3,233,524)	25,869,832
-	-	15,368,441	-	15,368,441
251,113	-	(5,424,231)	-	-
-	366,280	839,653	-	1,205,933
37,083,245	366,280	15,777,645	(28,010,132)	303,625,536
(21,058,536)	(212,244)	(14,963,626)	-	(91,672,523)
-	-	-	-	78,551,800
3,676,155	-	-	-	3,934,141
-	126,100	5,948	-	5,454,618
-	-	(8,529,032)	-	(8,529,032)
-	-	(9,980,011)	-	(9,980,011)
17,207,674	-	-	-	17,207,674
228,376	-	175,007	-	403,383
21,112,205	126,100	(18,328,088)	-	87,042,573
-	-	15,882,414	-	-
98,994	-	-	-	-
130,273	-	10,903,379	-	-
229,267	-	26,785,793	-	-
-	-	1,393,586	-	1,393,586
21,341,472	126,100	9,851,291	-	88,436,159
282,936	(86,144)	(5,112,335)	-	(3,236,364)
6,955,639	1,713,863	205,712,993	-	235,711,720
\$ 7,238,575	\$ 1,627,719	\$ 200,600,658	\$ -	\$ 232,475,356

University Notes to 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 the University.

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

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

Noncurrent Fund Groupings:

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

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

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

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