

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

SECTION: 50

DATE:

January 19, 2007

**RECOMMENDATION**

**STATE OF MICHIGAN  
COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)  
AS OF JUNE 30, 2006**

**ACTION REQUESTED**

It is recommended that the Board of Regents approve and place on file the State of Michigan Comprehensive Annual Financial Report (CAFR) as of June 30, 2006.

**STAFF SUMMARY**

The State of Michigan requires the component universities to re-state their annual audited financial statements in order to conform to the State's reporting format for inclusion in the State's financial reports. This action requires our auditors to express an opinion on the validity and accuracy of the re-stated financial statements.

**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**  
**Crosswalks for the State of Michigan**  
**Comprehensive Annual Financial Report**  
**June 30, 2006**

State of Michigan Financial Schedules

Eastern Michigan University

June 30, 2006

**CONTENTS**

Report of Independent Auditors on Supplementary Information	I
Exhibit I - Combining Statement of Net Assets	2-4
Adjustments and Reclassification Data - Statement of Net Assets	5-6
Exhibit II - Statement of Current Funds Revenues, Expenses, Transfers, and Changes in Net Assets	7
Exhibit III - Statement of Activities	8
Adjustments and Reclassification Data - Statement of Activities	9
Notes to Combined Financial Statements	10-18

## Independent Auditor's Report

To the Board of Trustees  
Eastern Michigan University

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Eastern Michigan University for the year ended June 30, 2006 and have issued our report thereon dated August 29, 2006, which expressed an unqualified opinion on the statements. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information (as listed in the table of contents) is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information is presented for the purpose of conforming the University's financial statements with the State of Michigan Comprehensive Annual Financial Report format. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the University, the State of Michigan Department of Management and Budget, and the Office of Financial Management - State of Michigan, and is not intended to be and should not be used for any other purposes.

August 29, 2006

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**University and Foundation**  
**Combining Statement of Net Assets**  
**June 30, 2006**

**Exhibit I**

	EMU University	EMU Foundation	Eliminations	University Combined
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 65,676,454	\$ 3,466,673	\$ -	\$ 69,143,127
Accounts Receivable, Net	22,668,929	606,554	(528,146)	22,747,337
Appropriation Receivable	13,846,184	-	-	13,846,184
Inventories	895,377	27,343	-	922,720
Deposits and Prepaid Expenses	1,212,229	-	-	1,212,229
Accrued Interest Receivable	472,330	123,511	-	595,841
Total current assets	104,771,503	4,224,081	(528,146)	108,467,438
<b>Noncurrent Assets:</b>				
Student Loans Receivable	11,304,304	-	-	11,304,304
Long Term Investments	28,256,544	43,675,697	-	71,932,241
Capital Assets, Net (Note 4)	310,844,852	2,170,565	-	313,015,417
Other	8,051,550	594,572	-	8,646,122
Total noncurrent assets	358,457,250	46,440,834	-	404,898,084
Total assets	<u>\$ 463,228,753</u>	<u>\$ 50,664,915</u>	<u>\$ (528,146)</u>	<u>\$ 513,365,522</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Current Portion of LT Debt	\$ 4,830,000	\$ 21,514	\$ -	\$ 4,851,514
Accounts Payable	16,137,827	1,317,484	(528,146)	16,927,165
Accrued Payroll, Taxes, and Benefits	16,420,269	-	-	16,420,269
Unearned Fees and Deposits	7,406,044	-	-	7,406,044
Insurance and Other Claims Payable	3,821,438	-	-	3,821,438
Total current liabilities	48,615,578	1,338,998	(528,146)	49,426,430
<b>Noncurrent Liabilities:</b>				
Accrued Compensated Absences	2,395,597	-	-	2,395,597
Long Term Debt	149,455,000	2,213,739	-	151,668,739
Long Term Unearned Fees	220,000	-	-	220,000
Total noncurrent liabilities	152,070,597	2,213,739	-	154,284,336
Total liabilities	200,686,175	3,552,737	(528,146)	203,710,766
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	189,229,163	-	-	189,229,163
Restricted, Expendable	43,978,484	44,891,103	-	88,869,587
Unrestricted	29,334,931	2,221,075	-	31,556,006
Total net assets	262,542,578	47,112,178	-	309,654,756
Total liabilities and net assets	<u>\$ 463,228,753</u>	<u>\$ 50,664,915</u>	<u>\$ (528,146)</u>	<u>\$ 513,365,522</u>

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Combining Statement of Net Assets**  
**June 30, 2006**

*Exhibit I (Continued)*

	University Combined	Adjustments and Reclassifications		SOMCAFR Format
		Debit	Credit	
<b>Assets</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 69,143,127	\$ -	\$ 69,143,127 (1)	\$ -
Accounts Receivable, Net	22,747,337	-	22,747,337 (2)	-
Appropriation Receivable	13,846,184	-	13,846,184 (3)	-
Inventories	922,720	-	922,720 (4)	-
Deposits and Prepaid Expenses	1,212,229	-	1,212,229 (5)	-
Accrued Interest Receivable	595,841	-	595,841 (6)	-
Total current assets	108,467,438	-	108,467,438	-
Noncurrent Assets:				
Student Loans Receivable	11,304,304	-	11,304,304 (7)	-
Long Term Investments	71,932,241	-	71,932,241 (8)	-
Capital Assets, Net	313,015,417	-	313,015,417 (9)	-
Other	8,646,122	-	8,646,122 (10)	-
Total noncurrent assets	404,898,084	-	404,898,084	-
Total assets	<u>\$ 513,365,522</u>	<u>\$ -</u>	<u>\$ 513,365,522</u>	<u>\$ -</u>
<b>Liabilities</b>				
Current Liabilities:				
Current Portion of LT Debt	\$ 4,851,514	\$ 4,851,514 (11)	\$ -	\$ -
Accounts Payable	16,927,165	16,927,165 (12)	-	-
Accrued Payroll, Taxes, and Benefits	16,420,269	16,420,269 (13)	-	-
Unearned Fees and Deposits	7,406,044	7,406,044 (14)	-	-
Insurance and Other Claims Payable	3,821,438	3,821,438 (15)	-	-
Total current liabilities	49,426,430	49,426,430	-	-
Noncurrent Liabilities:				
Accrued Compensated Absences	2,395,597	2,395,597 (16)	-	-
Long Term Debt	151,668,739	151,668,739 (17)	-	-
Long Term Unearned Fees	220,000	220,000 (18)	-	-
Total noncurrent liabilities	154,284,336	154,284,336	-	-
Total liabilities	203,710,766	203,710,766	-	-
<b>Net Assets</b>				
Invested in Capital Assets, Net				
of Related Debt	189,229,163	189,229,163 (19)	-	-
Restricted, Expendable	88,869,587	88,869,587 (20)	-	-
Unrestricted	31,556,006	31,556,006 (21)	-	-
Total net assets	309,654,756	309,654,756	-	-
Total liabilities and net assets	<u>\$ 513,365,522</u>	<u>\$ 513,365,522</u>	<u>\$ -</u>	<u>\$ -</u>

Note: Reference numbers refer to adjustments and reclassifications on the combining balance sheet on page 4 and the schedule of crosswalk references for adjustments and reclassifications - combining balance sheet on pages 5 and 6.

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Combining Statement of Net Assets**  
**June 30, 2006**

*Exhibit I (Continued)*

	University Combined	Adjustments and Reclassifications Debit	Credit	SOMCAFR Format
<b>Assets</b>				
<b>Current assets:</b>				
Cash	\$ -	\$ 69,143,127 (1)	\$ -	\$ 69,143,127
Due from component units	-	-	-	-
Due from primary government	-	18,759,310 (22)	-	18,759,310
Due from federal	-	2,722,402 (23)	-	2,722,402
Due from local units	-	-	-	-
Inventories	-	922,720 (4)	-	922,720
Other current assets	-	16,919,879 (24)	-	16,919,879
Total current assets	-	108,467,438	-	108,467,438
<b>Restricted assets:</b>				
Mortgages and loans receivable	-	11,304,304 (7)	-	11,304,304
Investments	-	71,932,241 (8)	-	71,932,241
<b>Capital assets:</b>				
Land and other non-depreciable assets (CIP)	-	49,859,249 (25),(29)	-	49,859,249
Buildings, equipment, and other depreciable assets	-	458,431,300 (26)	-	458,431,300
Less accumulated depreciation	-	(226,296,630) (27)	-	(226,296,630)
Infrastructure (associated with buildings, equipment and other)	-	31,021,498 (28)	-	31,021,498
Total capital assets	-	313,015,417	-	313,015,417
Other noncurrent assets	-	8,646,122 (10)	-	8,646,122
Total noncurrent assets	-	404,898,084	-	404,898,084
Total assets	\$ -	\$ 513,365,522	\$ -	\$ 513,365,522
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable and other liabilities	\$ -	\$ -	\$ 32,877,982 (30)	\$ 32,877,982
Due to primary government	-	-	454,960 (31)	454,960
Bonds and notes payable	-	-	4,851,514 (32)	4,851,514
Interest payable	-	-	3,835,930 (33)	3,835,930
Deferred revenue	-	-	7,406,044 (14)	7,406,044
Total current liabilities	-	-	49,426,430	49,426,430
<b>Long-term liabilities:</b>				
Deferred revenue	-	-	220,000 (18)	220,000
Bonds and notes payable	-	-	151,668,739 (17)	151,668,739
Noncurrent portion of other long-term obligations	-	-	2,395,597 (16)	2,395,597
Total long-term liabilities	-	-	154,284,336	154,284,336
Total liabilities	-	-	203,710,766	203,710,766
<b>Net Assets</b>				
Invested in capital assets, net of related debt	-	-	189,229,163 (19)	189,229,163
<b>Restricted for:</b>				
Construction and debt service	-	-	26,287,863 (35)	26,287,863
Other purposes	-	-	17,690,621 (37)	17,690,621
<b>Funds held as permanent investments:</b>				
Expendable	-	-	-	-
Nonexpendable	-	-	47,112,178 (36)	47,112,178
Unrestricted	-	-	29,334,931 (38)	29,334,931
Total net assets	-	-	309,654,756	309,654,756
Total liabilities and net assets	\$ -	\$ -	\$ 513,365,522	\$ 513,365,522

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Schedule of Crosswalk References for Adjustments and Reclassifications -**  
**Combining Statement of Net Assets**  
**June 30, 2006**

1	Reclassify University financial data into the specified format to be used in the state's CAFR statements (no adjustments needed)			
2	Reclassify amounts due from primary government			
	State Appropriation receivable	\$	13,846,184	(3)
	State grants and contracts receivable		424,764	(a)
	Charter School receivable from Michigan Dept of Treasury		4,488,362	(b)
	Amounts due from primary government	\$	18,759,310	(22)
3	Amounts due from federal agencies	\$	2,722,402	(23)(c)
4	Reclassify receivables and other current assets			
	Accounts receivable	\$	22,747,337	(2)
	Less State grants and contracts receivable		(424,764)	(a)
	Less Charter School receivable from Michigan Dept of Treasury		(4,488,362)	(b)
	Less federal receivable		(2,722,402)	(c)
	Net accounts receivable		15,111,809	
	Deposits and prepaid expenses		1,212,229	(5)
	Accrued interest receivable		595,841	(6)
	Other current assets	\$	16,919,879	(24)
5	Capital Assets			
	Land and other non-depreciable assets	\$	10,589,978	(25)
	Construction in progress		39,269,271	(29)
	Buildings, equipment, and other depreciable assets		458,431,300	(26)
	Infrastructure (included with buildings, equipment and other)		31,021,498	(28)
	Less accumulated depreciation		(226,296,630)	(27)
	Total capital assets	\$	313,015,417	(9)
6	Reclassify accounts payable and other liabilities			
	Accounts payable and accrued expenses	\$	16,927,165	(12)
	Payroll taxes and accrued fringe benefits		16,420,269	(13)
	Insurance and other claims payable		3,821,438	(15)
	Less: interest payable		(3,835,930)	(d)
	Less: amounts due to primary governments		(454,960)	(e)
	Accounts payable and other liabilities	\$	32,877,982	(30)
7	Components of amounts due to primary governments			
	MPSERS	\$	534,341	
	Michigan income tax withholding		(5,828)	
	Sales tax payable		3,524	
	Use tax payable		249	
	MIP		(74,111)	
	MESC		(3,215)	
	Amounts due to primary government	\$	454,960	(31)(e)

Note: Reference numbers refer to adjustments and reclassifications on the combining balance sheet on pages 3 and 4. Reference letters indicate reclassification adjustments within this schedule.



**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Schedule of Crosswalk References for Adjustments and Reclassifications -**  
**Combining Statement of Net Assets**  
**June 30, 2006**

8	Current liabilities, bonds, and notes payable	\$	4,851,514	(11)(32)
9	Components of restricted expendable net assets	\$	88,869,587	(20)
	Less: capital projects and debt service		(26,287,863)	(i)
	Less: permanently restricted		(47,112,178)	(j)
	Plus: restricted-expendable		2,221,075	(f)
	Less: loan fund		(12,580,307)	(g)
	Less: other ERF fund balance		(5,110,314)	(h)
		\$	-	
10	Construction and debt service			
	Plant Fund	\$	22,451,933	
	Debt Service		3,835,930	(33)(d)
	Total construction and debt service	\$	26,287,863	(35)(i)
11	Permanently restricted			
	Restricted - expendable	\$	44,891,103	(24)
	Other		2,221,075	(25)
		\$	47,112,178	(36)(j)
12	Restricted for other purposes			
	Student loan fund	\$	12,580,307	(g)
	Other		5,110,314	(h)
		\$	17,690,621	(37)
13	Long-term liabilities, bonds, and notes payable	\$	151,668,739	(17)
	Noncurrent portion of other long-term obligations	\$	2,395,597	(16)
14	Unrestricted	\$	31,556,006	(21)
	Less: restricted expendable		(2,221,075)	(f)
		\$	29,334,931	(38)

Note: Reference numbers refer to adjustments and reclassifications on the combining balance sheet on pages 3 and 4. Reference letters indicate reclassification adjustments within this schedule.

# Eastern Michigan University

## State Universities Component Units - Eastern Michigan University

### Statement of Current Funds Revenues, Expenses, Transfers and Changes in Net Assets Year Ended June 30, 2006

*Exhibit II*

	EMU University	EMU Foundation	Eliminations	University Combined
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ 154,539,224	\$ -	\$ -	\$ 154,539,224 (39)
Scholarship allowances	(16,348,058)	-	-	(16,348,058) (40)
Net student tuition and fees	138,191,166	-	-	138,191,166
Federal grants and contracts	6,259,063	-	-	6,259,063 (41)
Federal financial aid	13,631,569	-	-	13,631,569 (42)
State grants and contracts	448,878	-	-	448,878 (43)
State financial aid	3,249,840	-	-	3,249,840 (44)
Nongovernmental grants and contracts	5,187,691	1,630,644	(1,630,644)	5,187,691 (45)
Departmental activities	6,020,043	-	-	6,020,043 (46)
Auxiliary activities, less internal service billings of \$3,656,316 and \$3,344,976 in 2006 and 2005, respectively	30,238,165	1,710,934	-	31,949,099 (47)
Other	1,790,122	80,558	-	1,870,680 (48)
Total operating revenues	205,016,537	3,422,136	(1,630,644)	206,808,029
<b>OPERATING EXPENSES</b>				
Instruction	98,737,298	-	-	98,737,298 (49)
Research	5,208,231	-	-	5,208,231 (50)
Public service	10,884,509	-	-	10,884,509 (51)
Academic support	20,769,445	-	-	20,769,445 (52)
Student services	23,598,925	-	-	23,598,925 (53)
Institutional support	33,823,537	2,698,145	(1,630,644)	34,891,038 (54)
Scholarships and fellowships	18,777,665	-	-	18,777,665 (55)
Operation and maintenance of plant	22,741,294	-	-	22,741,294 (56)
Auxiliary activities, less internal service billings of \$3,656,316 and \$3,344,976 in 2006 and 2005, respectively	27,862,849	1,542,465	-	29,405,314 (57)
Depreciation	15,528,664	-	-	15,528,664 (58)
Capital additions, net	-	-	-	- (59)
Other	357,411	97,292	-	454,703 (60)
Total operating expenses	278,289,828	4,337,902	(1,630,644)	280,997,086
Operating loss	(73,273,291)	(915,766)	-	(74,189,057)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	76,764,820	-	-	76,764,820 (61)
Gifts	3,447,515	4,845,063	(2,896,849)	5,395,729 (62)
Federal grants	-	-	-	-
Investment income:				
Restricted	-	4,280,281	-	4,280,281 (63)
Unrestricted	3,403,355	-	-	3,403,355 (64)
Interest expense	(6,245,093)	-	-	(6,245,093) (65)
Contributions to EMU	-	(3,554,938)	3,554,938	- (66)
Other	658,089	-	(658,089)	- (67)
Net nonoperating revenues before capital items	78,028,686	5,570,406	-	83,599,092
Capital gifts	229,080	-	-	229,080 (68)
Additions to permanent endowments	-	991,033	-	991,033 (69)
Total net nonoperating revenues (expenses)	78,257,766	6,561,439	-	84,819,205
Increase in net assets	4,984,475	5,645,673	-	10,630,148
<b>NET ASSETS, beginning of year</b>	257,558,103	41,466,505	-	299,024,608
<b>NET ASSETS, end of year</b>	\$ 262,542,578	\$ 47,112,178	\$ -	\$ 309,654,756

Note: Reference numbers refer to adjustments and reclassifications on the schedule of crosswalk references for adjustments and reclassifications - statement of activities on page 9.

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Statement of Activities**  
**Year Ended June 30, 2006**

**Exhibit III**

Functions/Programs	Program Revenues			General Revenues							
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue	Interest & Investment Earnings	Payments From State of Michigan	Other	Change in Net Assets	Net Assets Beginning Restated	Net Assets End of Year
Primary Government:											
Governmental activities:											
Eastern Michigan University	\$ 287,242,179 (O) & (V)	\$ 189,791,877 (P)	\$ 21,122,764 (Q)	\$ 229,080 (R)	\$ (76,098,458)	\$ 3,403,355 (S)	\$ 80,463,538 (T)	\$ 2,861,713 (U)	\$ 10,630,148	\$ 299,024,608	\$ 309,654,756

Note: Reference letters refer to adjustments and reclassifications on the crosswalk references for adjustments and reclassifications -- statement of activities on page 9.

# Eastern Michigan University

## State Universities Component Units - Eastern Michigan University

### Statement of Current Funds Revenues, Expenses, Transfers and Changes in Net Assets

Year Ended June 30, 2006

O	Instruction	\$	98,737,298	(49)
	Research		5,208,231	(50)
	Public service		10,884,509	(51)
	Academic support		20,769,445	(52)
	Student services		23,598,925	(53)
	Institutional support		34,891,038	(54)
	Scholarships and fellowships		18,777,665	(55)
	Operation and maintenance of plant		22,741,294	(56)
	Auxiliary activities, less internal service billings of \$3,656,316 and \$3,344,976 in 2006 and 2005, respectively		29,405,314	(57)
	Depreciation		15,528,664	(58)
	Interest expense		6,245,093	(65)
		\$	<u>286,787,476</u>	
P	Student tuition and fees	\$	154,539,224	(39)
	Scholarship allowances		(16,348,058)	(40)
	Federal financial aid		13,631,569	(42)
	Departmental activities		6,020,043	(46)
	Auxiliary activities, less internal service billings of \$3,656,316 and \$3,344,976 in 2006 and 2005, respectively		31,949,099	(47)
		\$	<u>189,791,877</u>	
Q	Federal grants and contracts	\$	6,259,063	(41)
	Nongovernmental grants and contracts		5,187,691	(45)
	Restricted investment income		4,280,281	(63)
	Gifts		5,395,729	(62)
		\$	<u>21,122,764</u>	
R	Capital gifts	\$	<u>229,080</u>	(68)
S	Investment income			
	Unrestricted	\$	<u>3,403,355</u>	(64)
T	State appropriations	\$	76,764,820	(61)
	State grants and contracts		448,878	(43)
	State financial aid		3,249,840	(44)
		\$	<u>80,463,538</u>	
U	Other revenues	\$	<u>2,861,713</u>	(48),(69)
V	Other expenses	\$	<u>454,703</u>	(60)
	Operating loss	\$	(74,189,057)	
	Net nonoperating revenues (expenses)	\$	84,819,205	
	Income before other revenues, expenses, gains, or losses	\$	10,630,148	

# **Eastern Michigan University**

## **State Universities Component Units - Eastern Michigan University**

### **Notes to Combined Financial Statements**

**June 30, 2006**

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#### **1. Significant Accounting Policies**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), in the American Institute of Certified Public Accountants' audit guide, *Audits of Colleges and Universities*, and the *Manual for Uniform Financial Reporting - State of Michigan Colleges and Universities*, as revised. The University's fiscal year end is June 30.

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

#### **State Appropriations**

The University recognizes state appropriations on the cash basis. Other state appropriations are recognized as funds are allotted by the State.

#### **2. Accounting Changes and Restatements**

The University, a discretely presented component unit, decreased its beginning net assets by \$1,989,730 to reflect a prior period adjustment related to accounts receivable and an information technology conversion-related misstatement.

#### **3. Cash, Cash Equivalents, and Investments**

The University utilizes the "pooled cash" method of accounting for substantially all of its cash and investments. Cash and investments are held by financial institutions on behalf of the University. The GASB's Statement 40 requires disclosure of risk as of June 30, 2006.

##### **Deposits**

Cash is generally uninsured and uncollateralized and the University uses a zero balance account in its cash management system. Accordingly, any outstanding checks are reflected as negative cash in its disbursement accounts. As of June 30, 2006, the carrying amount of disbursement accounts was \$13,166,013. Of these balances, the banks reported balances in the disbursement accounts of \$11,037,584 (\$8,088,713 + \$3,466,673 Foundation - \$517,802). The total covered by federal depository insurance or by collateral held by an agent in our name was \$517,802 (\$217,802 + \$300,000 Foundation.) The amount uninsured and uncollateralized was \$10,519,782 (\$11,037,584 - \$517,802). All deposits are held in U.S. institutions; therefore, there is no foreign currency risk.

##### **Investments**

In accordance with the GASB's Statement 40, investments are carried at fair value. The following tables show the carrying amounts of investments. Cash equivalents are comprised of U.S. Treasuries, U.S. Agencies, and mutual funds and are uninsured and uncollateralized.

# Eastern Michigan University

## State Universities Component Units - Eastern Michigan University

### Notes to Combined Financial Statements

June 30, 2006

### 3. Cash, Cash Equivalents, and Investments - Continued

Interest Risk - Neither the University nor the Foundation has a formal policy limiting investment maturities as a means of managing its exposure to fair value losses arising from interest rates. University investments may be made in external mutual funds, separate managed funds and/or other pooled funds with investment policies which match the University's credit and market risk tolerance and have acceptable risk management procedures as approved and monitored by the University investment committee.

The neutral position of an external intermediate term cash pooled fund and each of the managers' portfolios will be the average maturity and duration of the Merrill Lynch 1-3 Year Treasury Index (in the range of two years). Typically the weighted average maturities of the managers' portfolios will fan between one and three years. Durations are generally in the two-year range.

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

	Investment Maturities (in Years)					Total
	June 30, 2006: Fair Market Value	Less Than 1	1-5	6-10	More Than 10	
Deposits:						
Time deposits	\$ 13,166,013	\$ 13,166,013	\$ -	\$ -	\$ -	\$ 13,166,013
Investments:						
Short-term notes	56,168,620	52,160,049	2,003,336	1,889,496	115,739	56,168,620
Government securities	28,193,070	7,239,339	18,977,464	1,425,862	550,405	28,193,070
Equities	34,120,466	34,120,466	-	-	-	34,120,466
Real estate	650,000	650,000	-	-	-	650,000
Venture capital & leveraged buyouts	25,003	25,003	-	-	-	25,003
Mutual equity funds	-	-	-	-	-	-
Mutual bond funds	8,752,196	-	8,752,196	-	-	8,752,196
Total Investments	\$ 141,075,368	\$ 107,360,870	\$ 29,732,996	\$ 3,315,358	\$ 666,144	141,075,368
Less Investments Reported as "Cash" on Statement of Net Assets						(69,143,127)
Total Investments						\$ 71,932,241
As Reported on the Statement of Net Assets						
Current investments						\$ -
Noncurrent restricted investments						71,932,241
Noncurrent investments						-
Total Investments						\$ 71,932,241

# Eastern Michigan University

## State Universities Component Units - Eastern Michigan University

### Notes to Combined Financial Statements

June 30, 2006

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### 3. Cash, Cash Equivalents, and Investments - Continued

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

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

In the event of a split rating in which one of the ratings falls below the minimum established above, the investment is disqualified. Investments are generally made in the following securities: Banker's Acceptances, Corporate Bonds, Corporate Notes, Certificates of Deposit, Commercial Paper, Deposit Notes, and Eurodollars in countries rated I or better by Thomson BankWatch (or equivalent rating). The Foundation does not have a minimum credit risk policy for investments.

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Notes to Combined Financial Statements**  
**June 30, 2006**

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**3. Cash, Cash Equivalents, and Investments - Continued**

Credit risk for University investments as of June 30, 2006:

<u>Instrument</u>	<u>Fair Market Value</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
Federal Home Loan Bank	\$ 99,375	Aaa	AAA	n/a
Hopkinsville Kentucky IDR	260,000	n/a	n/a	n/a
MKO Properties, LLC	2,500,000	n/a	n/a	n/a
Greenpoint Taxable	5,050,049	Aaa	n/a	n/a
Nel-Net Taxable Student Loans	6,000,000	n/a	AAA	AAA
Nel-Net Taxable Student Loans	3,300,000	n/a	AAA	AAA
Educational Funding South	1,700,000	Aaa	n/a	n/a
Access Group Loans	3,000,000	Aaa	AAA	AAA
Mississippi County Ark.	4,450,000	n/a	A+/A-I	n/a
Educational FDG Of The South	2,500,000	Aaa	AAA	AAA
Illinois Student Loans	2,000,000	Aaa	n/a	AAA
Federal Home Loan Mtg Corp	1,548,714	Aaa	AAA	n/a
Federal Home Loan Bank	1,441,835	Aaa	AAA	n/a
Federal Home Loan Mtg Corp	826,516	Aaa	AAA	n/a
Federal Home Loan Mtg Corp	2,049,513	Aaa	AAA	AAA
Federal Natl Mtg Assn Strips	417,023	Aaa	AAA	n/a
SLM Student Loan Trust	2,500,000	Aaa	AAA	AAA
SLM Student Loan Trust	5,000,000	Aaa	AAA	AAA
Union Financial Taxable S.L.	2,300,000	Aaa	AAA	n/a
Nel-Net Taxable Student Loans	5,000,000	Aaa	AAA	n/a
Nel-Net Taxable Student Loans	5,000,000	n/a	AAA	AAA
Educational Funding South	1,600,000	Aaa	AAA	n/a
Federal Home Loan Bank	5,808,780	Aaa	AAA	n/a
Federal Home Loan Bank	2,948,430	Aaa	AAA	n/a
Federal Home Loan Bank	2,953,140	Aaa	AAA	n/a
Federal National Mortgage Assn	5,820,000	Aaa	AAA	AAA
U.S Treasury Stripped Bonds	41,322	n/a	AAA	n/a
Vanguard Fxd Inc Sec Sh Tm	8,118,961	n/a	n/a	n/a
Total	<u>\$ 84,233,658</u>			



**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Notes to Combined Financial Statements**  
**June 30, 2006**

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**3. Cash, Cash Equivalents, and Investments - Continued**

Credit risk for Foundation investments as of June 30, 2006:

<u>Description</u>	<u>Fair Market Value</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
FNMA 4.75%	\$ 225,011	N/A	N/A
US TSY INFL PROT NOTE 3.375%	404,106	N/A	N/A
US TREASURY NOTE 4.375%	227,246	N/A	N/A
FNMA - CALLABLE 3.75%	396,615	N/A	N/A
US TREASURY NOTE 3.25%	257,999	N/A	N/A
FHLMC 5.75%	397,077	N/A	N/A
FHLMC MED TERM NTS 5.0%	395,424	N/A	N/A
FNMA 5.25%	394,785	N/A	N/A
US TREASURY NOTE 4.375%	112,548	N/A	N/A
TINT TRSY INTEREST PAYMENT	401,244	N/A	N/A
FHLMC NTS 4.375%	237,523	N/A	N/A
US TREASURY NOTE 4.25%	279,762	N/A	N/A
UNITED STATES TREAS SEC STRIPPED	54,400	N/A	AAA
UNITED STATES TREAS SEC STRIPPED	52,931	N/A	AAA
TINT TRSY INTEREST PAYMENT	160,162	N/A	N/A
US TREASURY BOND 7.875%	241,590	N/A	N/A
HOUSEHOLD FIN CORP NOTES 4.625%	239,530	Aa3	AA-
HEWLETT PACKARD CO MW+20BP NTS 3.625%	223,398	A3	A-
COUNTRYWIDE HOME CREDIT NTS 3.25%	225,802	A3	A
INTL BUSINESS MACH MW/10BP NTS 5.375%	239,014	A1	A+
WAL MART STORES INC B/E GLOBAL BNDS 6.875%	397,655	Aa2	AA
HONEYWELL INTL INC NTS GLOBAL 7.5%	397,358	A2	A
ERAC USA FIN CO NTS SER 144A 8.00%	43,216	Baa1	A-
AMER GENL FIN CORP NTS B/E 4.0%	237,363	A1	A+
GENL ELEC CAP CORP NTS 5.875%	396,092	Aaa	AAA
BELLSOUTH CORP M-W+15BP NTS 4.75%	236,439	A2	A
SEARIVER MARITIME FINL HLDGS INC GTD	70,600	AAA	AAA
CIT GROUP INC NEW GLOBAL SR NOTES 5.0%	237,426	A2	A
CITIGROUP INC NTS B/E 5.125%	236,098	Aa1	AA-
JP MORGAN CHASE & CO 5.125%	238,027	A1	A
VERIZON GLOBAL FDG CORP NTS B/E MW+20BP 4.9%	237,778	A3	A
WELLS FARGO & CO NEW SUB NOTES NTS 5.125%	237,035	Aa2	A+
FEDERAL NATL MTG ASSN DEB	91,160	AA2	AA-
FINANCING CORP CPN FICO STRIPS SER-16	24,579	N/A	N/A
Stock	34,120,466		
Mutual Funds	633,235		
Venture Capital	25,003		
Real Estate (Internally Held)	650,000		
Total	<u>\$ 43,675,697</u>		

# Eastern Michigan University

## State Universities Component Units - Eastern Michigan University

### Notes to Combined Financial Statements

June 30, 2006

### 3. Cash, Cash Equivalents, and Investments - Continued

Foreign Currency Risk - The University does not currently have any direct investments in Eurodollars or any other foreign entity so there is no direct foreign currency risk. The Vanguard mutual fund may contain investments in foreign companies, but the overall foreign currency risk is minimal. The Foundation international portfolio does contain American Depositary Receipts (ADRs), which are foreign companies but not foreign stocks. Issued by US banks, ADRs represent shares of stock in a foreign company and are listed on NYSE, AMEX and Nasdaq. Foreign stocks are traded on US exchanges in the form of American Depositary Receipts and are subject to SEC regulation.

Custodial Credit Risk - All investments are registered in the name of the University or Foundation.

Concentration of Credit Risk - The following University investments represent 5% or more of total University investments:

<u>Instrument</u>	<u>Fair Market Value</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
Mississippi County Ark.	\$ 4,450,000	n/a	A+/A-1	n/a
Nel-Net Taxable Student Loans	5,000,000	Aaa	AAA	n/a
Nel-Net Taxable Student Loans	5,000,000	n/a	AAA	AAA
SLM Student Loan Trust	5,000,000	Aaa	AAA	AAA
Greenpoint Taxable	5,050,049	Aaa	n/a	n/a
Federal Home Loan Bank	5,808,780	Aaa	AAA	n/a
Federal National Mortgage Assn	5,820,000	Aaa	AAA	AAA
Nel-Net Taxable Student Loans	6,000,000	n/a	AAA	AAA
Vanguard Fxd Inc Sec Sh Tm	8,118,961	n/a	n/a	n/a
Total	<u>\$ 50,247,790</u>			

None of the Foundation investments represent 5% or more of total Foundation investments.

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Notes to Combined Financial Statements**  
**June 30, 2006**

**4. Capital Assets**

The following table summarizes, by major class of asset, the recorded costs of capital assets as of June 30, 2006:

	2005	Additions/ Transfers	Retirements	2006
Land	\$ 10,589,978	\$ -	\$ -	\$ 10,589,978
Construction-in-progress	12,195,863	39,269,271	(12,195,863)	39,269,271
Total Nondepreciable	22,785,841	39,269,271	(12,195,863)	49,859,249
Infrastructure	30,073,098	948,400	-	31,021,498
Leasehold improvements	3,408,874	-	-	3,408,874
Buildings	331,319,095	1,658,237	(661,350)	332,315,982
Equipment	118,272,860	6,168,802	(1,735,218)	122,706,444
Total Depreciable	483,073,927	8,775,439	(2,396,568)	489,452,798
	505,859,768	48,044,710	(14,592,431)	539,312,047
Accumulated depreciation-Infrastructure	(19,513,419)	(922,957)	-	(20,436,376)
Accumulated depreciation-Leasehold Imp	(2,641,312)	(170,444)	-	(2,811,756)
Accumulated depreciation-Buildings	(104,193,207)	(6,674,637)	661,350	(110,206,494)
Accumulated depreciation-Equipment	(86,496,248)	(7,901,287)	1,555,531	(92,842,004)
	\$ 293,015,582	\$ 32,375,385	\$ (12,375,550)	\$ 313,015,417

**5. Notes and Bonds Payable**

The principal and interest on notes and bonds are payable only from certain general revenues. The obligations are generally callable. The following table summarizes debt service requirements for the succeeding years ended June 30:

	Principal	Interest	Total
2007	\$ 4,851,514	\$ 6,474,368	\$ 11,325,882
2008	4,687,898	6,276,529	10,964,427
2009	7,055,841	6,053,840	13,109,681
2010	4,800,000	5,699,908	10,499,908
2011	4,600,000	5,468,479	10,068,479
	<u>25,995,253</u>	<u>29,973,124</u>	<u>55,968,377</u>
2012-2016	24,560,000	24,073,451	48,633,451
2017-2021	30,640,000	18,482,700	49,122,700
2022-2026	34,500,000	11,958,893	46,458,893
2027-2031	29,085,000	5,027,332	34,112,332
2032-2036	11,740,000	901,368	12,641,368
Total	\$ <u>156,520,253</u>	\$ <u>90,416,868</u>	\$ <u>246,937,121</u>

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Notes to Combined Financial Statements**  
**June 30, 2006**

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**5. Notes and Bonds Payable - Continued**

The following table summarizes the defeased bonds outstanding at June 30, 2006:

1992 issue	\$ 159,000
2000 issue	2,005,000
2001 issue	38,987,752
2006 issue	<u>62,430,000</u>
Total defeased bonds	<u>\$ 103,581,752</u>

The following table summarizes bonds defeased during the fiscal year:

	<u>Defeased Amount</u>	<u>Average interest rate</u>
1992 issue	\$ 205,000	5.71%
2000 issue	295,000	6.17%
2001 issue	286,304	4.72%
2006 issue	<u>62,430,000</u>	3.32%
Total	<u>\$ 63,216,304</u>	

On February 1, 2006, the University entered into an interest rate exchange agreement for \$85.6 million of the General Revenue Bonds, Series 2006, issued to finance capital improvements. In accordance with the exchange agreement, the University pays a fixed rate of 3.317 percent.

**6. Leases**

There were no noncancelable operating and capital lease commitments as of June 30, 2006.

**7. Retirement Plans**

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 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 Plan (the "Plan"). The cost of the Plan allocated to the University, all of which was contributed, was approximately \$5,242,000 for the year ended June 30, 2006. Covered payroll was approximately \$18,770,000 for the year ended June 30, 2006.

**Eastern Michigan University**  
**State Universities Component Units - Eastern Michigan University**  
**Notes to Combined Financial Statements**  
**June 30, 2006**

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**7. Retirement Plans - Continued**

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 vest immediately. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract. For the year ended June 30, 2006, the University contributed approximately \$9,447,000 to the TIAA-CREF plan. Covered payroll was approximately \$96,549,000 for the year ended June 30, 2006.

The University has no liability beyond its own contribution under the TIAA-CREF program.

**8. Liability and Property Insurance**

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 coverage is 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-paid 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 claims incurred but not reported under self-insurance programs have been established in the operating funds.

**9. Commitments**

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, and the Student Union 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.