

# BOARD OF REGENTS

EASTERN MICHIGAN UNIVERSITY

SECTION: 21

DATE:

October 1, 2013

## RECOMMENDATION CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION AS OF JUNE 30, 2013

### ACTION REQUESTED

It is recommended that the Board of Regents receive and place on file the University's audited fiscal year 2012-13 financial statements and auditor's report.

### STAFF SUMMARY

The Financial Statements and Supplementary Information as of June 30, 2013 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.

Financial Statement highlights include:

- Total Net Position at June 30, 2013 of \$237.4 million including \$200.1 million in Capital Assets (net of debt), \$12.6 million in Restricted-Expendable Net Assets, and \$24.7 million in Unrestricted Net Assets. Total Assets at June 30, 2013 of \$565.1 million and Liabilities of \$327.7 million.
- An increase in Net Position for the year ending June 30, 2013 of \$14.9 million primarily reflecting an increase in the fair value of Eastern's interest rate swap agreements (non-cash, accounting adjustment)
- Unrestricted and Restricted-Expendable Net Assets of \$37.4 million at June 30, 2013, an increase of \$0.6 million compared with June 30, 2012.

During their audit, Plante & Moran did not identify any significant deficiencies or material weaknesses related to the University's controls, accounting practices, accounting estimates, or financial statement disclosures.

Representatives of Plante & Moran will be attending the Board's Finance and Investment Committee meeting to present a summary of the results of their audit including benchmark comparisons with other universities and to discuss any comments or questions the Board may have 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}

Presentation to the Finance  
and Investment Committee

June 30, 2013 Audit Report

plante  
moran

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# Eastern Michigan University

## Presentation to Finance & Investment Committee

- Summary of Presentation to Finance and Investment Committee:
  - ✓ Audited Financial Statements
    - Clean, unqualified opinion – highest level of assurance
  - ✓ Graphics Presentation with 2013 and 2012 financial highlights as well as comparisons to nine comparable universities using 2012 data
    - \$4.8 million decrease in total assets, due primarily to a \$10.4 million decrease in cash and investments offset by a \$4.2 million increase in capital assets.
    - \$19.8 million decrease in total liabilities, due to a \$21.2 million decrease in the derivative instruments, a \$3 million decrease in current liabilities, offset by an increase in long term debt of a \$6.2 million.
    - \$2.1 million increase in operating revenues due primarily to inflationary increases along with a \$1.4 million reduction in operating expenses due to a variety of cuts across all functions.
    - \$53.9 million increase in nonoperating revenues primarily due to a \$52 million change in the fair value of the derivative instruments.
    - Overall, total net position increased by \$14.9 million to \$237.4 million of which \$21.2 million was due to the change in the fair value of derivative instruments.

# Eastern Michigan University

## List of Comparable Universities

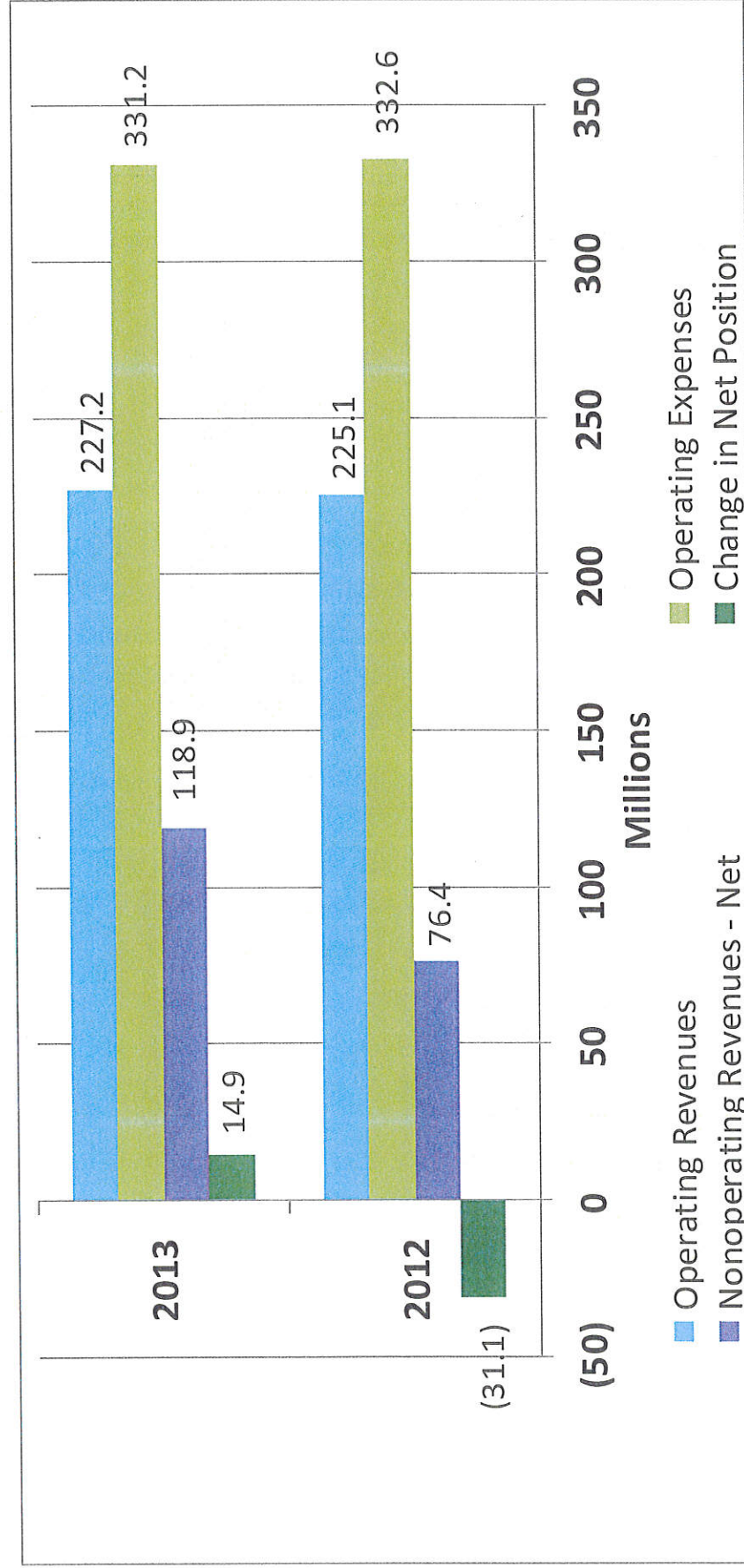
The following universities were used for comparison of financial information:

- Ball State University (Foundation is discretely presented)
- Bowling Green State University (Foundation is discretely presented)
- Central Michigan University (Foundation is blended)
- Grand Valley State University (Foundation is blended)
- Kent State University (Foundation is discretely presented)
- Miami University (Foundation is discretely presented)
- Ohio University (Foundation is discretely presented)
- University of Akron (Foundation is discretely presented)
- Western Michigan University (Foundation is discretely presented)



# Eastern Michigan University

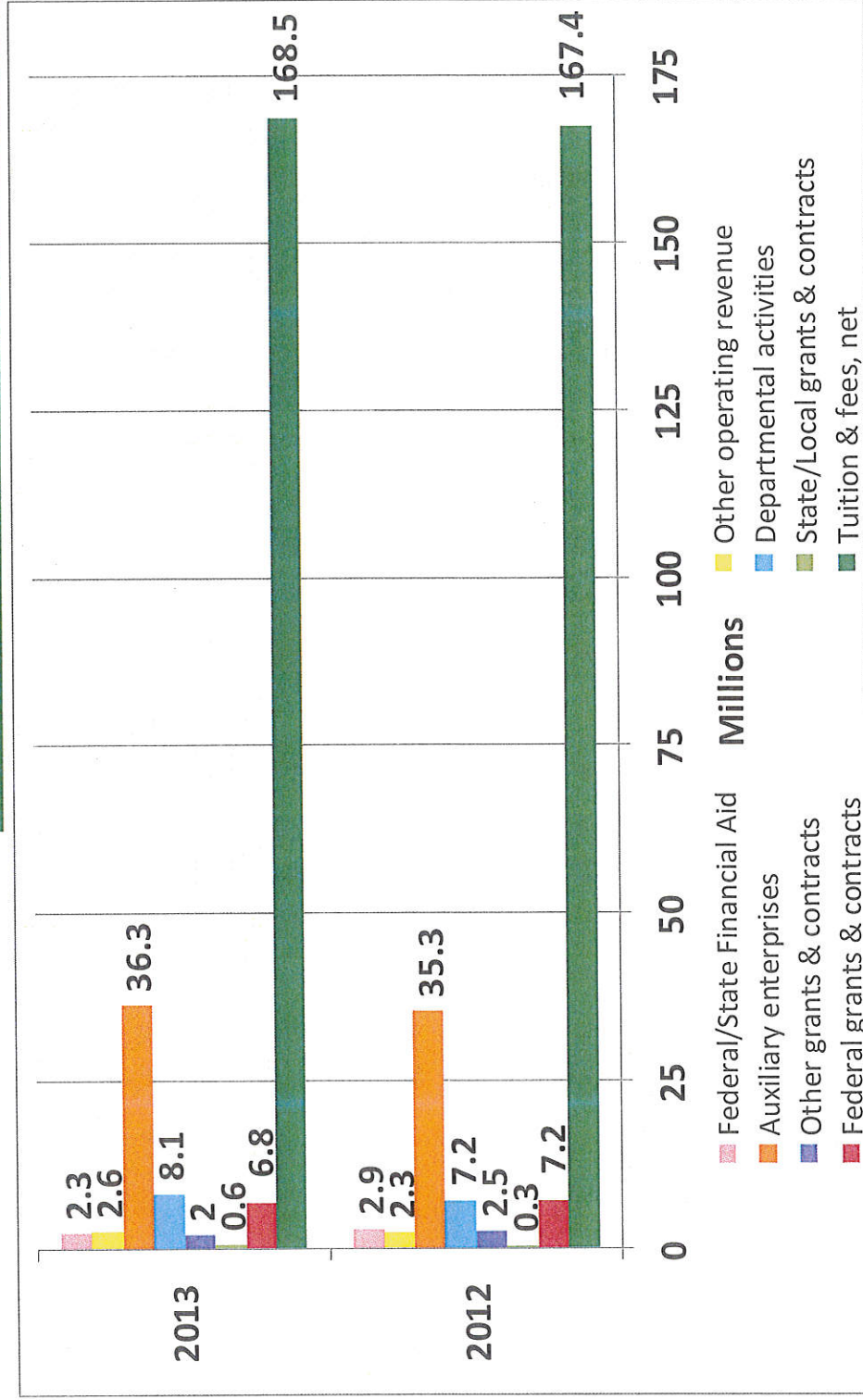
Revenues, Expenses and Changes in Net Position (in millions)



Note – Nonoperating revenues (including capital appropriations and gifts) for 2012 include noncash expenses of \$30.8 million for change in fair value of derivative instruments. For 2013, the change in fair value of the derivative generated noncash revenue of \$21.2 million.

# Eastern Michigan University

Operating Revenues – Comparative (in millions)



Operating revenues were \$227.2 million and \$225.1 million in 2013 and 2012, respectively.

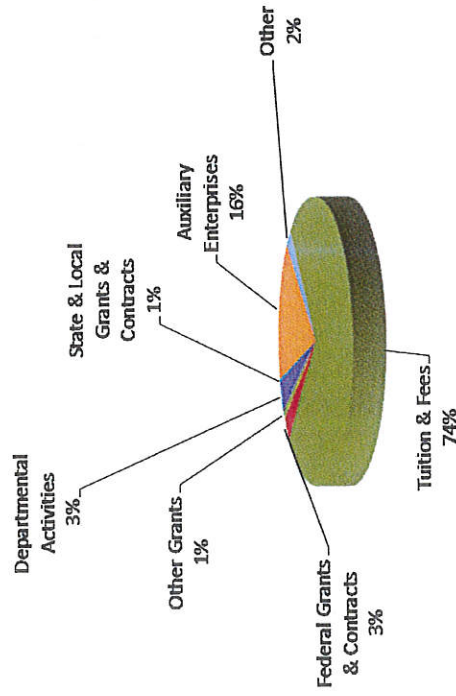


# Eastern Michigan University

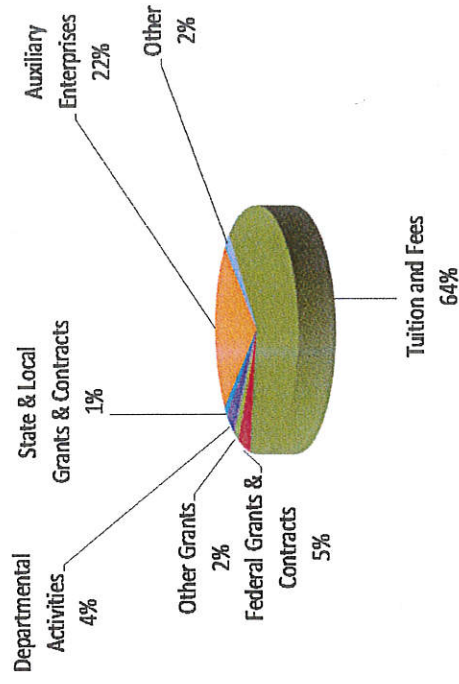
Operating Revenues – Compared to Avg. Comparable Universities (in millions)

EMU 2013

Avg. Comparable Universities for 2012



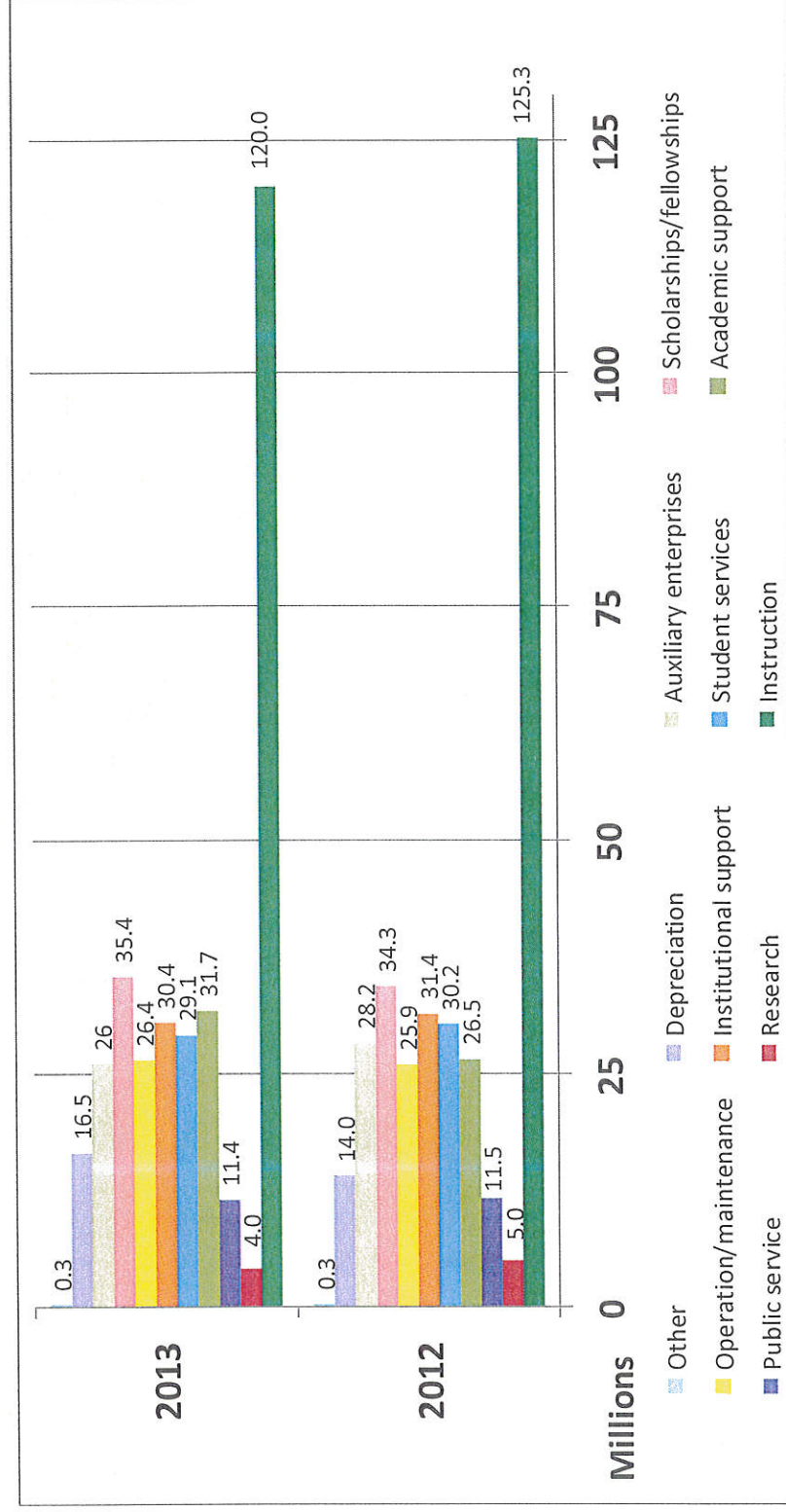
2013 Operating Revenue = \$227.2 million



Comparable Universities Average  
2012 Operating Revenue = \$350.1 million

# Eastern Michigan University

Operating Expenses – Comparative (in millions)



Operating expenses were \$331.2 million and \$332.6 million in 2013 and 2012, respectively.

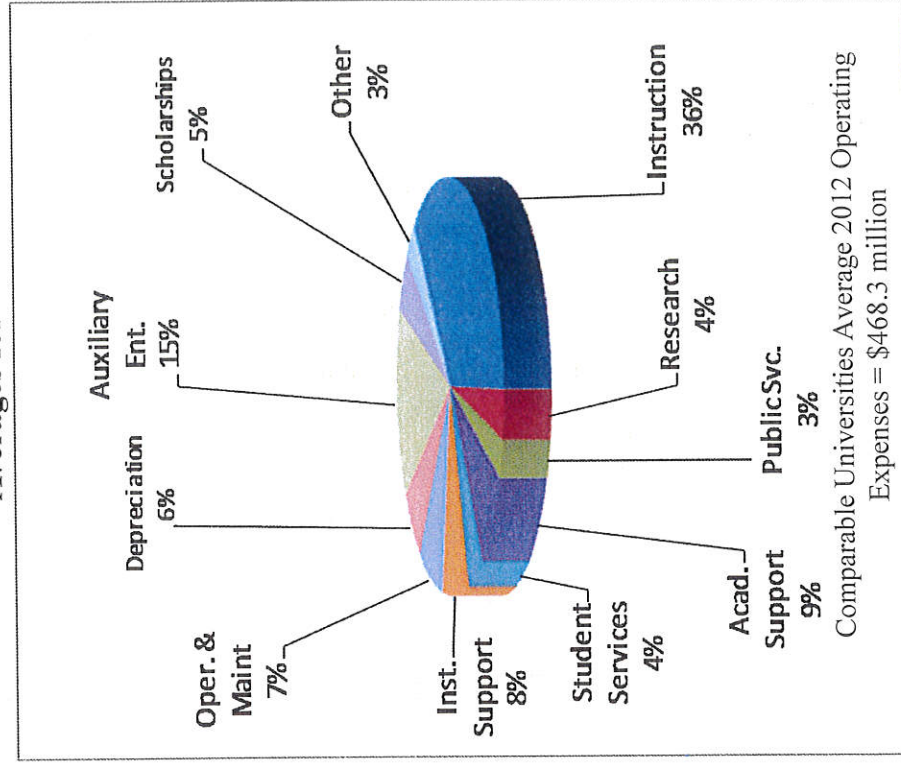
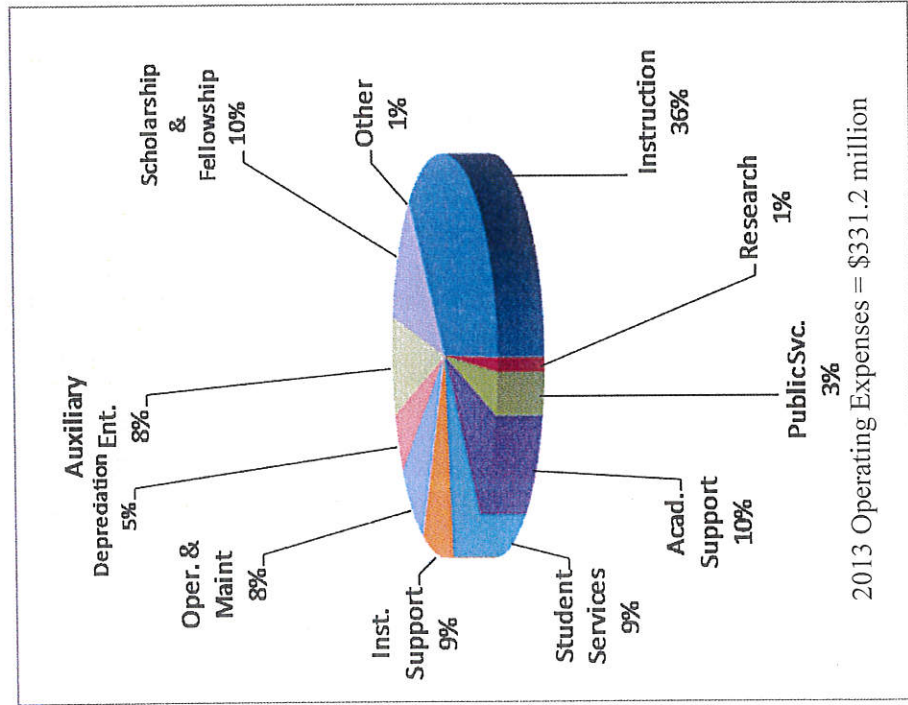


# Eastern Michigan University

Operating Expenses – Compared to Avg. Comparable Universities (in millions)

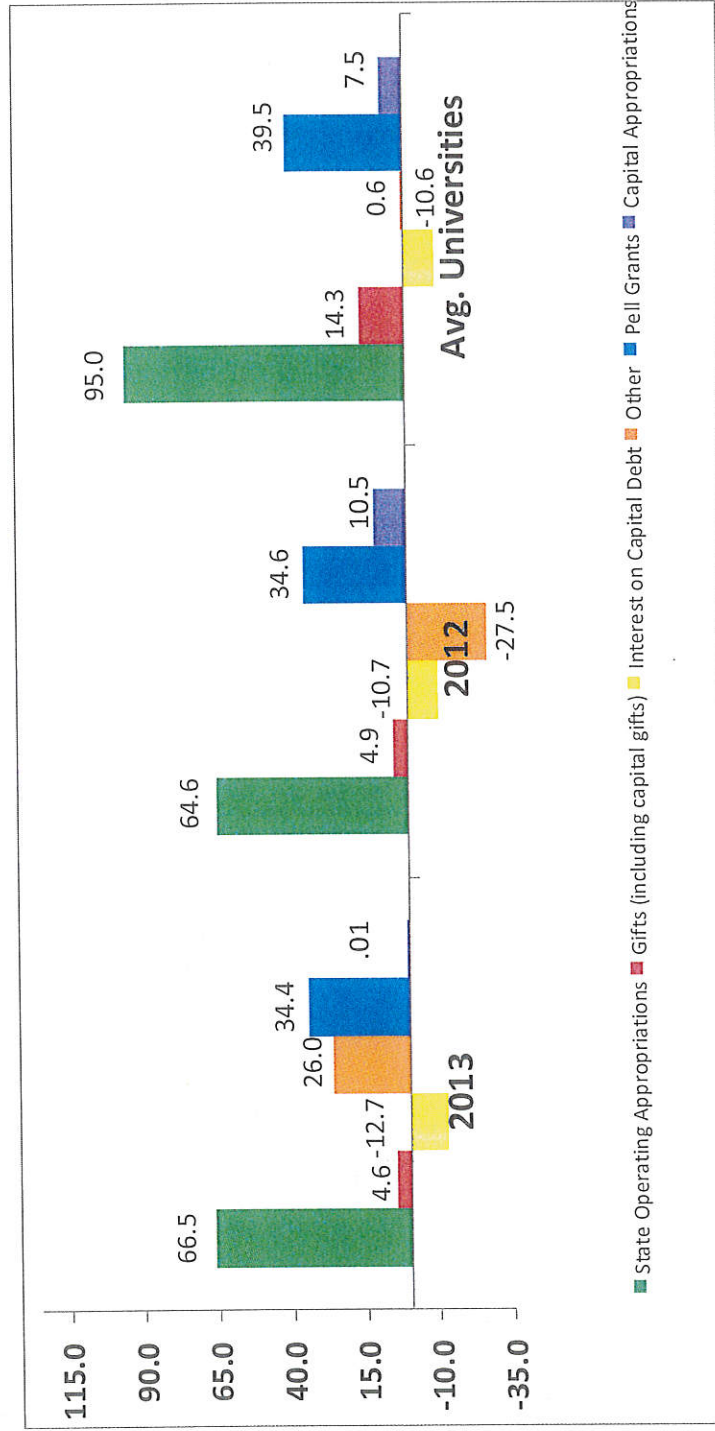
EMU 2013

Avg. Comparable Universities  
Averages for 2012



# Eastern Michigan University

Non-operating Revenues (Expenses) – Compared to Avg. Comparable Universities  
(in millions)

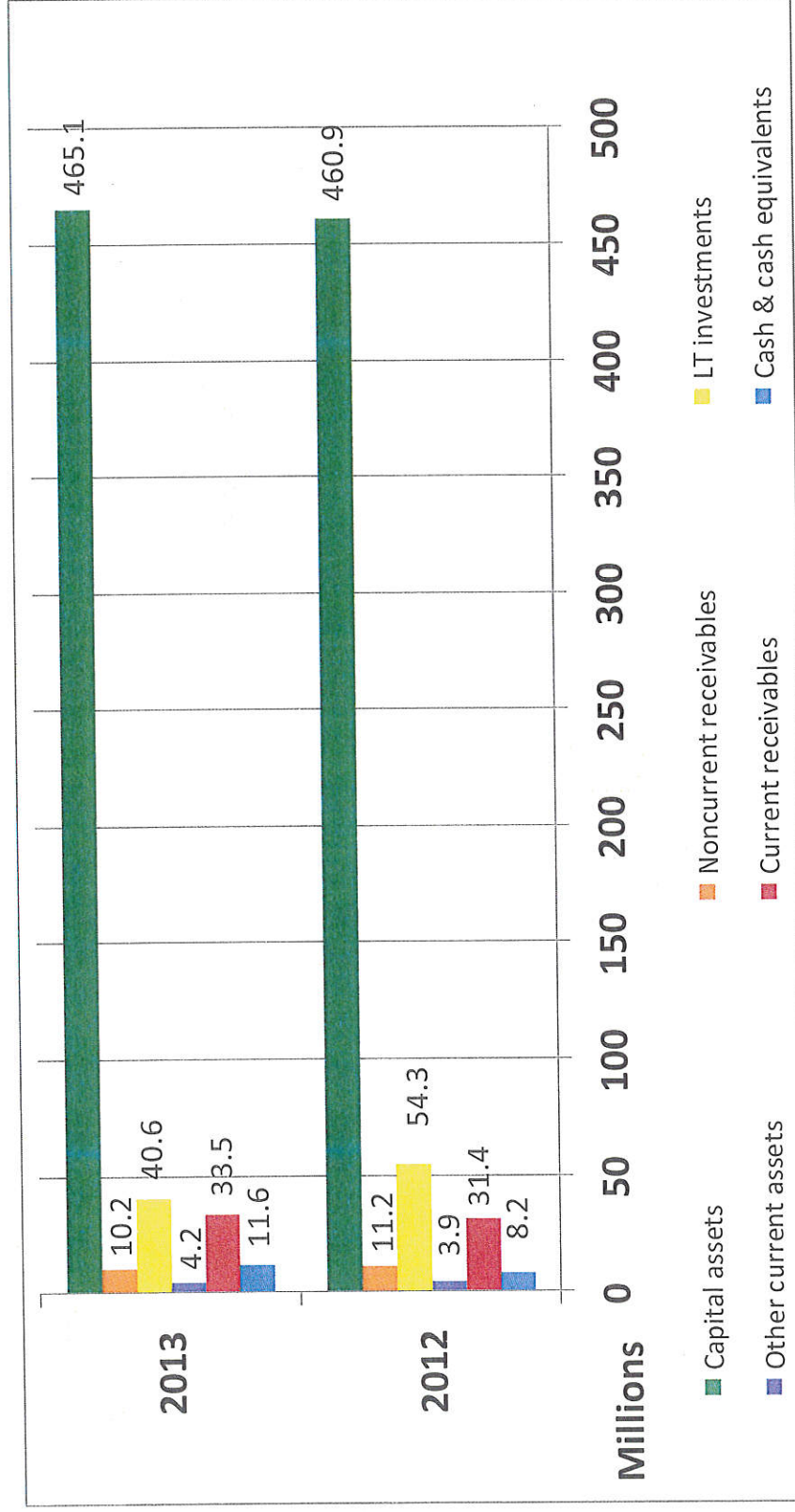


Net non-operating revenues (expenses) totaled \$118.9 million and \$76.4 million in 2013 and 2012, respectively. Other includes investment income (expense) and stimulus funding. Included in investment income (expense) is the change in value of derivative instruments in the amount of \$21.2 million and \$(30.8) million in 2013 and 2012, respectively. Comparable Universities average was \$147.0 million in 2012.



# Eastern Michigan University

Assets – Comparative (in millions)



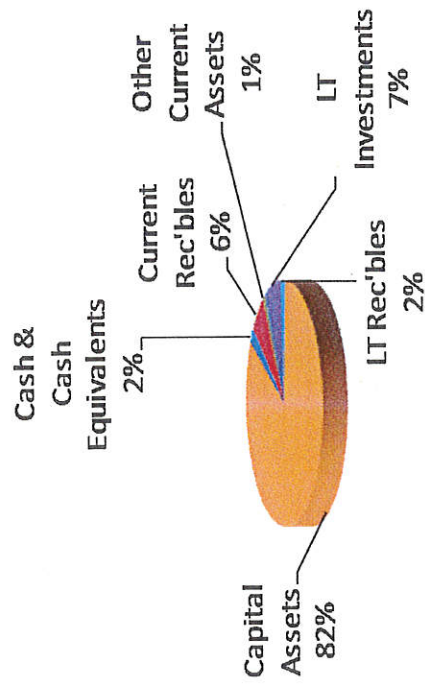
University assets were \$565.1 million and \$570.0 million in 2013 and 2012, respectively.

# Eastern Michigan University

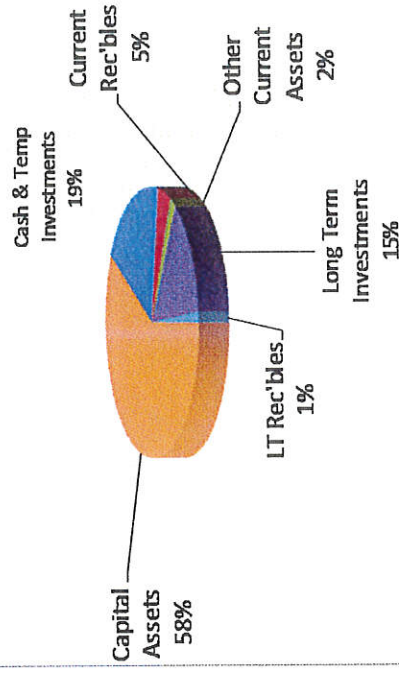
Assets – Compared to Avg. Comparable Universities (in millions)

EMU 2013

Avg. Comparable Universities  
For 2012



2013 Assets = \$565.1 million

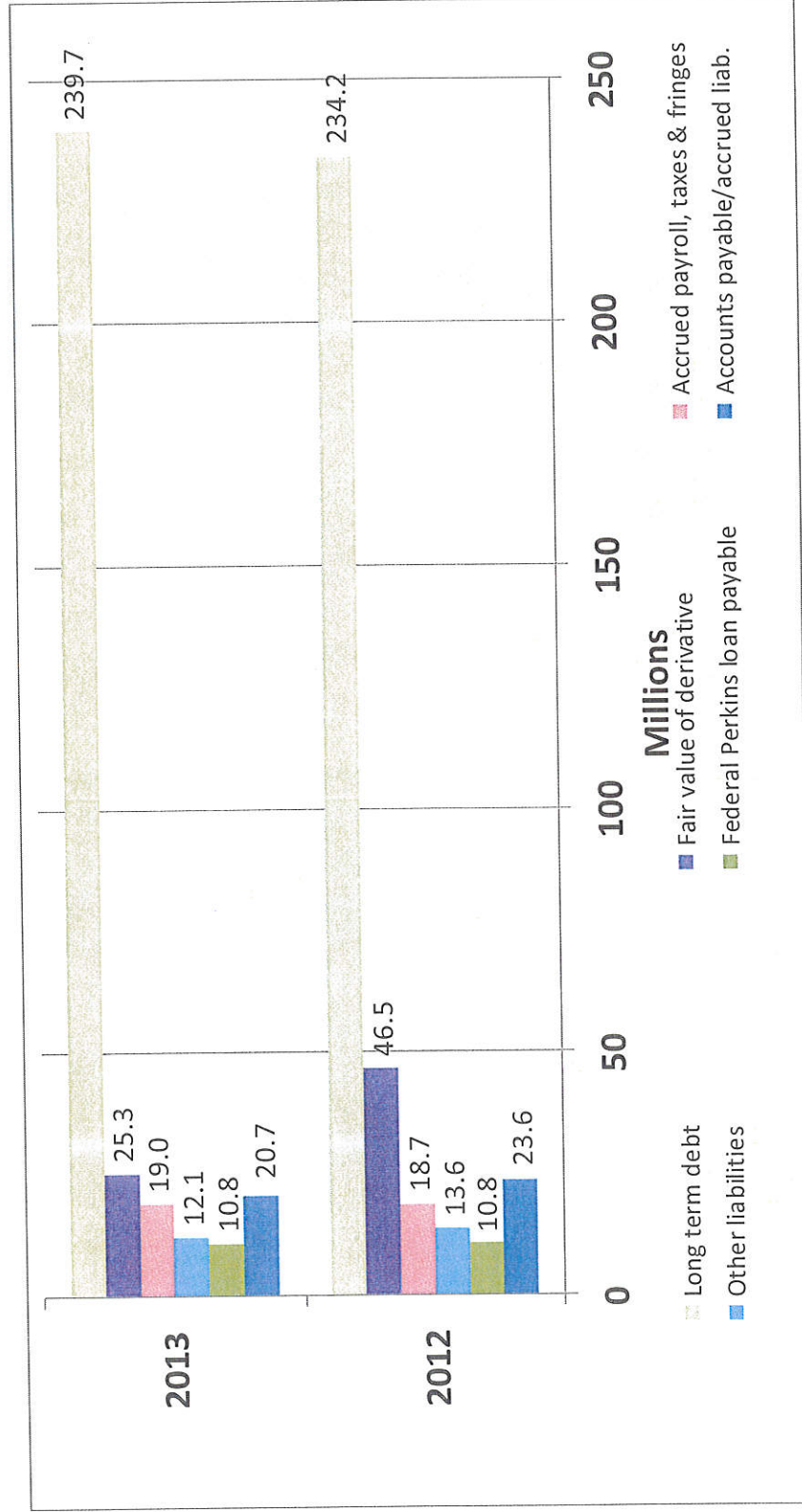


2012 Average Assets for Comparable  
Universities = \$1.034 billion



# Eastern Michigan University

Liabilities – Comparative (in millions)

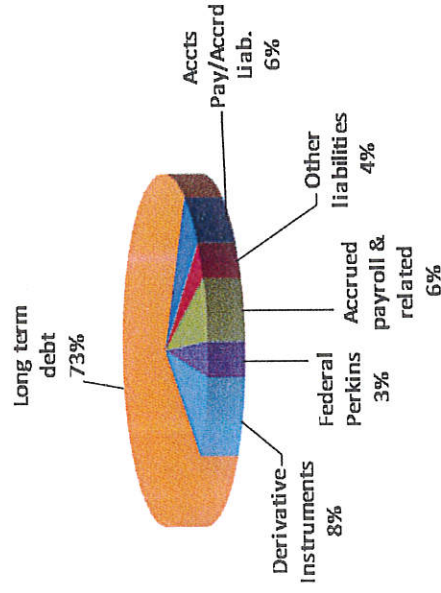


University liabilities were \$327.6 million and \$347.4 million in 2013 and 2012, respectively.

# Eastern Michigan University

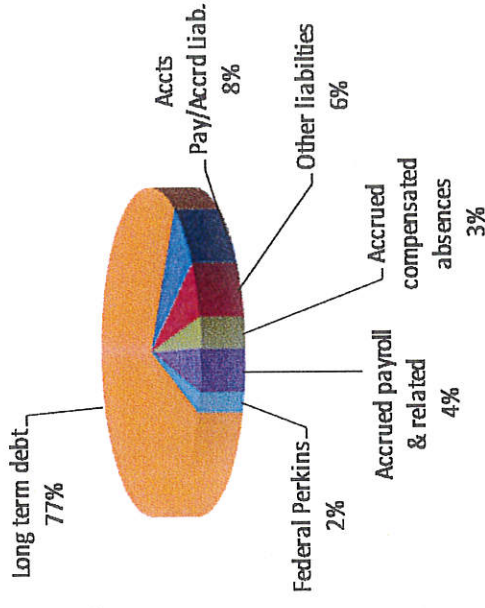
Liabilities – Compared to Avg. Comparable Universities (in millions)

## EMU 2013



2013 Liabilities = \$327.6 million

## 2012 Avg. Comparable Universities

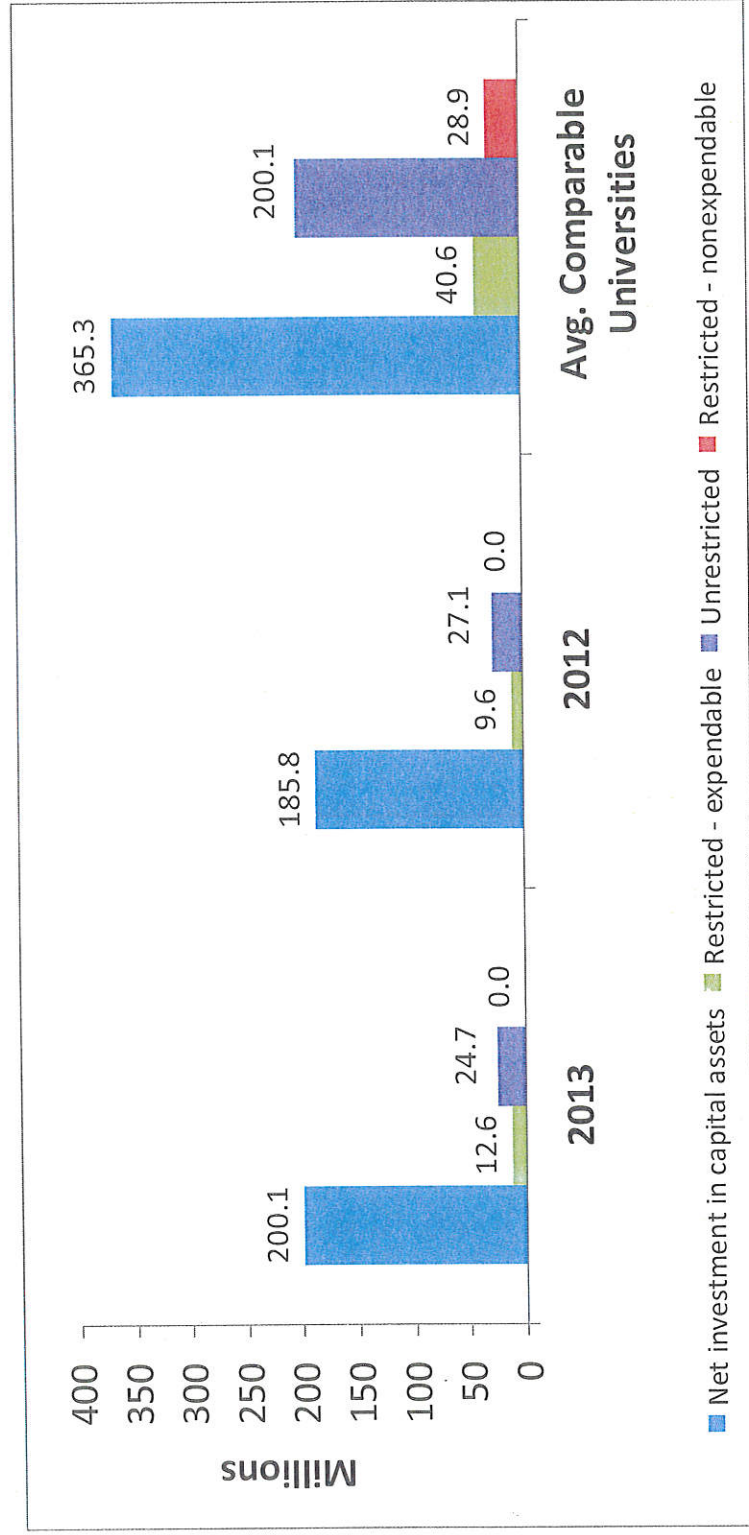


2012 Average Liabilities for Comparable Universities = \$404.5 million



# Eastern Michigan University

Net Position – Compared to Avg. Comparable Universities (in millions)



Net Position totaled \$237.4 million and \$222.5 million in 2013 and 2012, respectively. The Comparable Universities averaged \$634.8 million for 2012.

# Eastern Michigan University

## Financial Ratio Trends

Ratios	Eastern Michigan University			Comparable Universities Average 2012
	2013	2012	2011	
Student payments revenue dependency ratio	61.8%	60.9%	59.0%	65.0%
State appropriations dependency ratio	20.1%	19.4%	23.0%	20.3%
Sponsored programs dependency ratio	2.9%	3.1%	3.9%	4.3%
Unrestricted operating ratio **	7.5%	8.2%	12.2%	43.2%
Primary reserve ratio **	10.9%	10.6%	14.6%	51.2%
Viability ratio **	15.6%	15.7%	21.3%	100.8%
Net income ratio *	-1.9%	-0.1%	6.6%	5.0%
Composite rating *	2.0	2.0	2.8	4.5

\* - adjusted for change in fair value of derivative in FY12 and 13

\*\* - adjusted 2012 ratio with GABS65 retrospective implementation



# Eastern Michigan University

## Financial Ratio Trends- Continued

Definitions and formulas for the selected ratios included in the preceding table are as follows:

- **Student payments revenue dependency ratio** – Measures an institution's revenue generated from net student tuition and fees and auxiliary enterprises in comparison to total operating expenses, net of investment income and interest expense.
- **State appropriations dependency ratio** – Measures an institution's revenue generated from unrestricted state operating appropriations in comparison to total operating expenses, net of investment income and interest expense.
- **Sponsored programs dependency ratio** – Measures federal, state and local revenue in comparison to total operating expenses, net of investment income and interest expense.
- **Unrestricted operating ratio** – Measures the institution's unrestricted (designated and undesignated) net position, in comparison to total operating expenses, net of investment income and interest expense.
- **Primary reserve ratio** – Measures the institution's reserves to expenses (operating and interest expense).
- **Viability ratio** – Measures the institution's reserves to debt (current and long term portion).
- **Net income ratio** – Measures the institution's net income as a percent of operating and nonoperating revenue.
- **Composite rating** – Moody's overall rating of financial condition. Computed using a weight of the primary reserves ratio (50%), viability ratio (30%) and the net income ratio (20%). According to Moody's, a perfect score is a 5.0. A score of 3.0 and higher is considered to be in solid financial condition.

# Eastern Michigan University

## Results of Audit

- The scope of our audit was as planned.
- Complete cooperation was given to us throughout the audit by everyone at the University.
- Letter of Comments – no issues noted, best practice recommendations
- Audit of the Federal Programs is in process. We have noted no findings or questioned costs to date.
- “Net Position” replaced “Net Assets” with the adoption of GASB Statement number 62 in 2013.





# {Thank you}

We appreciate the opportunity to  
serve Eastern Michigan University

Vicki VanDenBerg – Partner  
269.567.4618  
[vicki.vandenbergh@plantemoran.com](mailto:vicki.vandenbergh@plantemoran.com)

Jennifer Kujawski – Manager  
419.842.6202  
[jennifer.kujawski@plantemoran.com](mailto:jennifer.kujawski@plantemoran.com)

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Eastern Michigan University

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June 30, 2013 and 2012

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## Independent Auditor's Report

To the Board of Regents  
Eastern Michigan University

### Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Michigan University, a component unit of the State of Michigan ("the University"), and its discretely presented component unit as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Eastern Michigan University's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The discretely presented component unit was not audited under Government Auditing Standards.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Eastern Michigan University as of June 30, 2013 and 2012 and its discretely presented component unit as of June 30, 2013 and 2012 and the respective changes in net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 1 and 5 to the basic financial statements, effective July 1, 2012, the University adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus. Statement No. 61 is an amendment to Statement 14 and Statement 34, modifying certain requirements for inclusion of component units in the financial reporting entity. The University also adopted GASB Statement No. 63, *Financial Reporting of Deferred*

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*Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net asset by the University that is applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. Our opinion is not modified with respect to these matters.

## **Other Matters**

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eastern Michigan University's basic financial statements. The Schedule of Net Assets by Fund Group and Revenues, Expenses, and Changes in Net Assets by Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with Government Auditing Standards, we have also issued our report dated **October, XX, YEAR** on our consideration of the 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

**October XX, 2013**



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## 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, 2013, 2012, and 2011. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

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

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

Founded in historic Ypsilanti in 1849, the University occupies 880 acres on the main campus with 122 buildings. In addition, there are 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, 2013, with assets of \$565 million and liabilities of \$328 million.

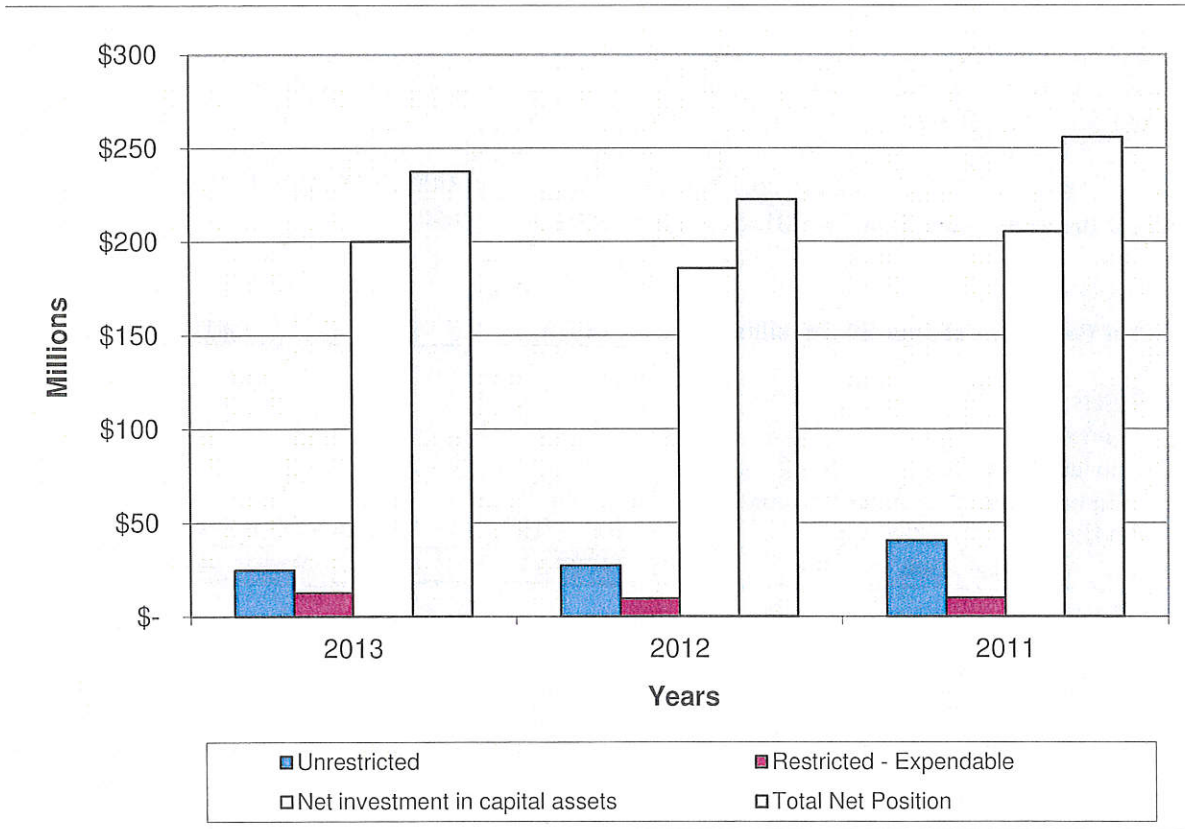
In 2013 the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This standard introduces and provides financial reporting guidance for deferred inflows and outflows of resources and defines those elements as consumption of net position by the University that is applicable to a future reporting period, and an acquisition of Net position by the University that is applicable to a future reporting period, respectively. The University had no deferred inflows or outflows as of June 30, 2013, 2012, or 2011. In conjunction with the adoption of GASB 63, the University early-adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of this adoption, the University had a restatement of \$2.2 million net position as of July 1, 2010 due to the requirement to expense bond issuance costs. Under previous standards these costs had been capitalized and amortized over the life of the associated debt.

Due to fluctuation in interest rates, the fair value of the derivative liability decreased by \$21.2 million in 2013, followed by an increase of \$30.8 million in 2012, and a decrease of \$6.7 million in 2011.

In 2013 the University received the final \$.01 million from a capital outlay allocation for the Pray-Harrold renovation. In 2012 and 2011 the University received \$10.5 million and \$20.98 million, respectively. This was the first State Building Authority funding received since 1996.

## EASTERN MICHIGAN UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2013, 2012, and 2011.



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



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## EASTERN MICHIGAN UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Financial Statements

The University's financial report includes the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

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

Following is a summary of the major components of the net position and operating results of the University for the years ended June 30, 2013, 2012, and 2011 as restated:

Net Position as of June 30 (In millions)	2013	2012	2011
<b>Assets</b>			
Current assets	\$ 49.2	\$ 43.6	\$ 61.9
Noncurrent assets:			
Capital assets - Net of depreciation	465.1	460.9	433.4
Other	50.8	65.4	89.3
Total assets	\$ 565.1	\$ 569.9	\$ 584.6
<b>Liabilities</b>			
Current liabilities	\$ 51.7	\$ 54.7	\$ 65.8
Long-term liabilities	275.9	292.7	265.2
Total liabilities	\$ 327.6	\$ 347.4	\$ 331.0
<b>Net Position</b>			
Invested in capital assets	200.1	185.8	205.3
Restricted	12.6	9.6	10.0
Unrestricted	24.8	27.1	38.3
Total net position	\$ 237.5	\$ 222.5	\$ 253.6

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2013	2012	2011
<b>Operating Revenues</b>			
Tuition and fees - Net	\$ 168.5	\$ 167.4	\$ 162.7
Grants and contracts	11.7	12.9	16.4
Auxiliary activities - Net	36.3	35.3	33.4
Other	10.7	9.5	8.9
Total operating revenues	<u>227.2</u>	<u>225.1</u>	<u>221.4</u>
<b>Operating Expenses</b>			
Instruction	120.0	125.3	122.3
Research	4.1	5.0	6.3
Public service	11.4	11.4	12.4
Academic support	31.7	26.5	23.8
Student services	29.1	30.2	31.1
Institutional support	30.3	31.3	32.6
Operations and maintenance of plant	26.4	25.9	28.3
Scholarships and fellowships	35.4	34.3	34.1
Auxiliary activities - Net	25.9	28.2	25.6
Depreciation	16.5	14.1	15.8
Other expenditures	0.3	0.4	0.4
Total operating expenses	<u>331.1</u>	<u>332.6</u>	<u>332.7</u>
Net Operating Loss	<b>(103.9)</b>	<b>(107.5)</b>	<b>(111.3)</b>
<b>Nonoperating Revenues (Expenses)</b>			
State appropriations	66.5	64.6	76.0
Gifts	4.5	3.9	4.3
Change in value of derivative instruments	21.2	(30.8)	6.7
Pell grants	34.4	34.6	35.3
Other nonoperating expenses	(7.8)	(7.4)	(7.7)
Net Nonoperating Revenues	<u><b>118.8</b></u>	<u><b>64.9</b></u>	<u><b>114.6</b></u>
<b>Other Revenues</b>			
Capital appropriations	0.0	10.5	21.0
Capital gifts	0.1	1.0	0.4
Total other revenues	<u><b>0.1</b></u>	<u><b>11.5</b></u>	<u><b>21.4</b></u>
Increase (Decrease) in Net Assets	<b>15.0</b>	<b>(31.1)</b>	<b>24.7</b>
Net Position - Beginning of year, as restated	<u>222.5</u>	<u>253.6</u>	<u>228.9</u>
Net Position - End of year	<u><u>\$ 237.5</u></u>	<u><u>\$ 222.5</u></u>	<u><u>\$ 253.6</u></u>



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## EASTERN MICHIGAN UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

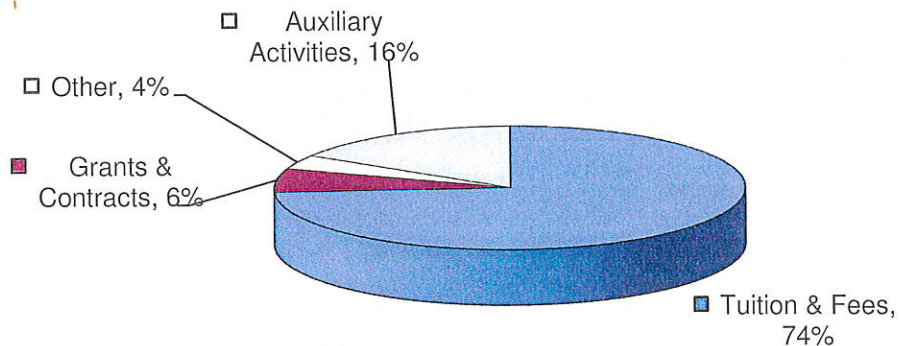
#### Operating Revenues

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

Student tuition and fees revenue increased as a result of a Board of Regents approved tuition and mandatory fee weighted average increase of 3.95 percent effective Fall 2012, partially offset by additional scholarships.

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

**Operating Revenues by Source**



### MANAGEMENT'S DISCUSSION AND ANALYSIS

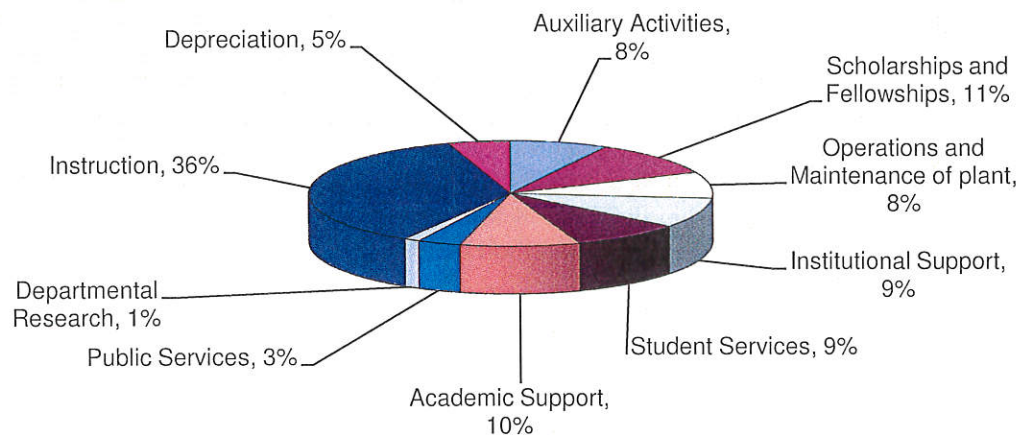
#### Operating Expenses

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

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

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

#### Operating Expenses





### 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:

- State operating appropriations increased \$1.9 million in 2013 to \$66.5 million and decreased \$11.4 million in 2012 to \$64.6 million due to the State's economy.
- Investment income decreased \$0.3 million to \$2.8 million in 2013 and decreased \$3.6 million to \$3.1 million in 2012 due to market conditions.
- The fair market value of derivative liability decreased \$21.2 million in 2013, following a \$30.8 million increase in 2012, also due to market conditions.
- Pell grants decreased \$0.2 million to \$34.4 million in 2013 and decreased \$0.7 million to \$34.6 million in 2012.
- In 2011, the University retired \$7.5 million of expired library subscriptions with accumulated depreciation of \$4.1 million purchased between 2003 and 2011.

#### 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 appropriations for the Pray-Harold renovation amounted to \$0.01 million, \$10.50 million and \$20.98 million in 2013, 2012 and 2011, respectively, for the first State Building Authority capital outlay from the State of Michigan since 1996. Capital gifts amounted to \$0.1 million in 2013, \$1.0 million in 2012, and \$0.4 million in 2011.

#### Statement of Cash Flows

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

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

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

	2013	2012	2011
<b>Cash Provided by (Used in):</b>			
Operating activities	\$ (92.7)	\$ (102.6)	\$ (87.6)
Noncapital financing activities	100.7	102.0	116.6
Capital and related financing activities	(33.8)	(25.4)	(111.6)
Investing activities	29.2	30.2	53.1
<b>Net Increase (Decrease) in Cash</b>	3.4	4.2	(29.5)
<b>Cash - Beginning of year</b>	8.2	4.0	33.5
<b>Cash - End of year</b>	\$ 11.6	\$ 8.2	\$ 4.0

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## EASTERN MICHIGAN UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Cash and Investments

Cash and investments, collectively, decreased by \$10.4 million to \$52.1 million as of June 30, 2013 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 \$92.7 million. To offset this, the net cash provided from non-capital financing activities, which consisted primarily of State appropriations, was \$100.7 million. This is compared to net cash used in operating activities in the amount of \$102.0 million and \$87.6 million for the years ended June 30, 2012 and 2011, respectively. Net cash provided by non-capital financing activities was \$102.0 million and \$116.6 million for the years ended June 30, 2012 and 2011, respectively.

Cash used by capital and related financing activities amounted to \$33.8 million in 2013, \$25.4 million in 2012, and \$111.6 million in 2011, primarily on capital additions.

#### Capital Assets

At June 30, 2013, the University had \$465.1 million invested in capital assets, net of accumulated depreciation of \$302.7 million. Depreciation charges totaled \$16.5 million for 2013 compared to \$14.0 million in 2012. In 2013, the University completed part of the Rackham renovation and other projects to improve classrooms, residence halls, technology infrastructure, athletics, building energy efficiency, and security. Capital projects in progress at June 30, 2013 primarily include additional work on Rackham, Information Technology infrastructure replacements, renovation of the Best residence hall, and improvements to the Halle ventilation system.

At June 30, 2012, the University had \$460.9 million invested in capital assets, net of accumulated depreciation of \$287.5 million. Depreciation charges totaled \$14.0 million for 2012 compared to \$15.8 million in 2011. In 2012, the University completed the Science Complex and Pray-Harrold renovations and projects to improve auxiliary building energy efficiency, security, and classrooms. Capital projects in progress at June 30, 2012 primarily include the Rackham renovation, Information Technology infrastructure replacements, and improvements to the Hoyt residence hall.

#### Debt

On November 30, 2012, the University issued \$75,000,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2012A, and \$60,795,000 of General Revenue Variable Rate Demand Revenue and Refunding Bonds, Series 20012B. These bonds refunded \$125,795,000 General Revenue Variable Rate Demand Refunding Bonds, Series 2009A&B, redeemed \$1,685,000 Series 2000 Bonds, redeemed \$250,000 Series 2002B Bonds, and provided \$7,885,500 for capital projects.

At June 30, 2013, the University had \$239.7 million in obligations outstanding, versus \$234.1 million in 2012 and \$237.4 million in 2011. All of the outstanding debt instruments are general revenue obligations of the University. Principal payments of \$2.7 million, \$3.2 million and \$3.6 million were made in 2013, 2012 and 2011, respectively. Included in the outstanding obligations are three interest rate swap agreements with notional amounts of \$127.1 million, \$126.9 million, and \$125.8 million as of June 30, 2013, 2012 and 2011, respectively. The terms of the swap agreements call for the University to post collateral to the counterparty under certain conditions tied to the prevailing rating of the University and



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## EASTERN MICHIGAN UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

the mark to market valuations of the swaps. The University posted collateral of \$5 million to the counterparty as of June 30, 2012. The collateral is reflected in long-term restricted investments. No collateral was required to be posted as of June 30, 2013 and 2011, respectively.

For the University's \$125,795,000 of enhanced variable rate debt refinanced in 2009, the credit ratings assigned by Moody's Investor Services (Aaa/VMIG-1) were unchanged in 2013 from 2012 and 2011. Standard and Poor's ratings (AAA/A-1) were unchanged in 2013 from 2012 and 2011. 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 ratings were AAA/A-1 (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, 2013.

#### **Funding for a Successful Future**

Eastern Michigan University's focus remains on investing in its students and faculty, in academic quality, and in maintaining and improving facilities that help educate students. Through diligent efforts at fiscal stewardship and cost containment, the University has set a standard for tuition restraint in recent years while still continuing to invest in facilities and programs that help EMU students succeed in today's economy.

For the fifth consecutive year, the University's Board of Regents has maintained its statewide leadership role in restraining higher education costs for Michigan students and their families.

The University's Board of Regents approved a tuition and mandatory fee increase of 3.75 percent for fall 2013 as part of the 2014 fiscal year budget. The increase matches this year's state tuition restraint threshold, set earlier this spring by the Michigan legislature for the state's 15 public universities. By setting its tuition at this rate, the University qualifies for additional state performance funding related to tuition restraint. Eastern now has the lowest dollar increase in tuition over the last five years of any of the 15 public universities in the state. The University's tuition increases have averaged 3 percent over that time frame.

The University's \$296.4 million General Fund budget for fiscal 2014 reflects a \$3.8 million increase in University-sponsored financial aid. Over the last six years, the University's financial aid has grown by more than 80 percent, from \$21.4 million in 2007-08 to \$39.2 million in 2013-14. The trend further underscores the University's commitment to helping students and their families cope with the increasing costs of attending college. The budget also reflects \$2.2 million in funding for new academic programs and Strategic Plan initiatives, such as support for the University's new Physician Assistant Program, which is planned for launch in May 2014.

The Board of Regents also approved an auxiliary activities operating budget of \$44.4 million. The budget includes revenues and expenditures associated with EMU's dining services, residence halls, apartments and parking.

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## EASTERN MICHIGAN UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The auxiliary activities budget reflects increased housing occupancy for fall 2013. It is expected that the number of students living on campus this fall in residence halls and University-owned apartments will increase by 9 percent to approximately 4,100 students, representing the third consecutive year of increase at the University. This fall, 800 more students, an increase of 24 percent, will be living on campus than in the fall of 2010.

Yet, even during this period of tuition restraint, the University has undergone an unprecedented period of capital reinvestment in its academic and student-centered facilities. The University's \$220 million, five-year capital plan included last fall's completion of Phase II of the \$90-million, self-funded Science Complex. The capital improvement program has included academic facility enhancements, such as the renovation of the Pray-Harrold Building; housing and dining renovations and improvements in campus safety and security, IT infrastructure, classroom technology and athletic facilities.

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.



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## EASTERN MICHIGAN UNIVERSITY STATEMENT OF NET POSITION As of June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents - unrestricted (Note 2)	\$ 11,563,199	\$ 8,212,735
Accounts receivable - net (Note 3)	21,400,437	18,712,762
Appropriation receivable	12,084,827	12,612,382
Inventories	1,163,375	1,218,107
Deposits and prepaid expenses	2,969,899	2,703,779
Accrued interest receivable	48,636	116,765
Total current assets	<u>49,230,373</u>	<u>43,576,530</u>
Noncurrent assets:		
Student loans receivable - net (Note 3)	10,230,657	11,157,010
Long-term investments - unrestricted (Note 2)	36,621,722	43,341,834
Long-term investments - restricted (Note 2)	3,931,959	10,974,439
Capital assets - net (Note 4)	465,075,754	460,870,108
Total noncurrent assets	<u>515,860,092</u>	<u>526,343,391</u>
Total assets	<u>\$ 565,090,465</u>	<u>\$ 569,919,921</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 2,330,000	\$ 2,965,000
Accounts payable and accrued liabilities	20,700,145	23,694,246
Accrued payroll, taxes, and fringe benefits	19,010,041	18,665,438
Unearned fees and deposits	7,571,072	7,486,339
Insurance and other claims payable (Note 7)	2,132,774	1,893,502
Total current liabilities	<u>51,744,032</u>	<u>54,704,525</u>
Noncurrent liabilities:		
Accrued compensated absences (Note 6)	2,448,992	4,216,476
Long-term debt (Note 5)	237,350,000	231,180,000
Fair value of derivative instruments (Notes 5 and 8)	25,307,160	46,521,031
Federal Perkins	10,796,240	10,796,240
Total noncurrent liabilities	<u>275,902,392</u>	<u>292,713,747</u>
Total liabilities	<u>\$ 327,646,424</u>	<u>\$ 347,418,272</u>
<b>NET POSITION</b>		
Net Investment in capital assets	\$ 200,088,594	\$ 185,757,787
Restricted—University development and Perkins loans	12,647,620	9,588,044
Unrestricted, as restated (Note 5)	24,707,827	27,155,818
Total net position	<u>\$ 237,444,041</u>	<u>\$ 222,501,649</u>

The accompanying notes are an integral part of this statement.

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## EASTERN MICHIGAN UNIVERSITY FOUNDATION BALANCE SHEET As of June 30, 2013 and 2012

ASSETS	2013	2012
Cash and cash equivalents (Note 2)	\$ 1,017,935	\$ 2,188,573
Accrued interest and dividends	46,650	49,932
Accounts receivable	10,767	9,013
Contributions receivable (Note 3)	509,480	907,081
Life insurance cash surrender value	294,900	283,070
Property and equipment - Net	1,960,796	1,951,001
Investments (Note 1)	56,167,196	48,874,561
Investments held under split-interest agreements (Note 1)	830,322	850,956
Total assets	<u>\$ 60,838,046</u>	<u>\$ 55,114,187</u>
LIABILITIES		
Accounts payable	\$ 349,085	\$ 588,088
Accrued liabilities	4,474	9,106
Liabilities under split-interest agreements	537,560	557,825
Total liabilities	<u>\$ 891,119</u>	<u>\$ 1,155,019</u>
NET ASSETS		
Unrestricted	\$ 1,140,618	\$ 299,010
Temporarily restricted	17,830,983	14,353,588
Permanently restricted	40,975,326	39,306,570
Total net assets	<u>\$ 59,946,927</u>	<u>\$ 53,959,168</u>
Total liabilities and net assets	<u>\$ 60,838,046</u>	<u>\$ 55,114,187</u>

The accompanying notes are an integral part of this statement.



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## EASTERN MICHIGAN UNIVERSITY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the years ended June 30, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 210,753,019	\$ 205,261,228
Scholarship allowances	(42,288,869)	(37,907,177)
Net student tuition and fees	168,464,150	167,354,051
Federal grants and contracts	6,797,632	7,245,487
Federal financial aid	1,578,566	2,274,675
State grants and contracts	624,949	292,917
State financial aid	723,380	658,130
Nongovernmental grants and contracts	1,984,099	2,500,058
Departmental activities	8,126,452	7,161,685
Auxiliary activities revenue - Net (Note 1)	36,343,679	35,333,355
Other	2,589,717	2,296,425
Total operating revenues	<u>227,232,624</u>	<u>225,116,783</u>
<b>OPERATING EXPENSES</b>		
Instruction	119,974,535	125,299,662
Research	4,044,763	5,032,390
Public service	11,448,532	11,441,475
Academic support	31,702,396	26,543,859
Student services	29,127,868	30,212,938
Institutional support	30,369,776	31,350,414
Scholarships and fellowships	35,386,073	34,275,204
Operation and maintenance of plant	26,412,450	25,891,160
Auxiliary activities expenses - Net (Note 1)	25,972,217	28,222,868
Depreciation	16,482,011	14,010,211
Other	266,398	344,893
Total operating expenses	<u>331,187,019</u>	<u>332,625,074</u>
Operating loss	<u>(103,954,395)</u>	<u>(107,508,291)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	66,526,774	64,619,095
Gifts	4,538,943	3,895,174
Investment Income	2,773,709	3,098,096
Change in value of derivative instruments	21,213,876	(30,786,866)
Interest expense	(12,688,334)	(12,551,502)
Interest ARRA subsidy	1,880,893	1,880,893
Federal Pell grant program	34,394,008	34,627,248
Other	143,819	160,532
Net nonoperating revenues	<u>118,783,688</u>	<u>64,942,670</u>
<b>OTHER REVENUES</b>		
Capital Appropriations	12,461	10,509,153
Capital gifts	100,638	951,175
Total other revenues	<u>113,099</u>	<u>11,460,328</u>
Increase (Decrease) in net assets	14,942,392	(31,105,293)
<b>NET ASSETS - Beginning of year, as restated (Note 5)</b>	222,501,649	253,606,942
<b>NET ASSETS - End of year</b>	<u>\$ 237,444,041</u>	<u>\$ 222,501,649</u>

The accompanying notes are an integral part of this statement.

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## EASTERN MICHIGAN UNIVERSITY FOUNDATION

### STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2013

	2013	2012
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>		
Contributions	\$ 4,144,402	\$ 7,215,434
Investment income	1,043,740	779,139
Net realized and unrealized gains (losses)	6,397,317	(1,034,138)
Administrative and management fee	1,828,000	1,903,000
Other revenue	67,594	78,737
Total revenue, gains and other support	<u>13,481,053</u>	<u>8,942,172</u>
<b>EXPENSES</b>		
Contributions to EMU:		
Expendable contributions	\$ 2,726,733	\$ 3,025,963
Contributions from endowment income	1,302,163	1,456,024
General and administrative - Foundation management	537,211	564,592
Fundraising	2,991,879	3,034,639
Total expenses	<u>\$ 7,557,986</u>	<u>\$ 8,081,218</u>
<b>Increase in Net Assets Before Other Changes in Net Assets</b>	5,923,067	860,954
<b>OTHER CHANGES IN NET ASSETS</b>		
Funds transferred from EMU	102,999	126,150
Change in value of split-interest agreements	<u>(38,307)</u>	<u>215,182</u>
<b>Increase in Net Assets</b>	5,987,759	1,202,286
<b>NET ASSETS - Beginning of year</b>	<u>53,959,168</u>	<u>52,756,882</u>
<b>NET ASSETS - End of year</b>	<u><u>\$ 59,946,927</u></u>	<u><u>\$ 53,959,168</u></u>

The accompanying notes are an integral part of this statement.

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## EASTERN MICHIGAN UNIVERSITY STATEMENT OF CASH FLOWS For the years ended June 30, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from students for tuition and fees	\$ 208,567,265	\$ 203,128,493
Cash received from auxiliary activities	42,922,554	39,688,272
Cash received from other sources	12,054,323	10,317,684
Grants and contracts	10,232,064	15,076,998
Student loans granted - Net of repayments	874,573	870,287
Scholarship allowances	(48,418,767)	(42,908,721)
Cash paid to suppliers and employees	(241,298,080)	(256,580,423)
Cash paid for financial aid	(77,612,186)	(72,182,381)
Net cash used in operating activities	<u>(92,678,254)</u>	<u>(102,589,791)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from State appropriations	61,725,873	63,488,115
Federal Pell grants	34,394,008	34,627,248
Gifts received from EMU Foundation	4,538,943	3,895,174
Net cash provided by noncapital financing activities	<u>100,658,824</u>	<u>102,010,537</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds	10,000,000	-
Principal payments/defeasance under debt obligations	(4,465,000)	(3,205,000)
Cash received from State Building Authority	875,917	30,624,083
Interest paid	(12,688,334)	(12,551,502)
Purchases of capital assets	(27,515,429)	(40,257,197)
Net cash used in capital and related financing activities	<u>(33,792,846)</u>	<u>(25,389,616)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(53,112,664)	(106,203,417)
Proceeds from sales and maturities of investments	79,430,053	133,195,013
Interest received	2,845,351	3,170,388
Net cash provided by investing activities	<u>29,162,740</u>	<u>30,161,984</u>
Net increase in cash and cash equivalents	3,350,464	4,193,114
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<u>8,212,735</u>	<u>4,019,621</u>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<u><u>\$ 11,563,199</u></u>	<u><u>\$ 8,212,735</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS</b>		
Disposal of fixed assets, net of depreciation	\$ 90,475	\$ 83,103
Capital gifts received in kind	\$ 100,638	\$ 951,175

The accompanying notes are an integral part of this statement.



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## EASTERN MICHIGAN UNIVERSITY

### STATEMENT OF CASH FLOWS

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (103,954,395)	\$ (107,508,291)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	16,482,011	14,010,211
Changes in assets and liabilities:		
Accounts receivable - Net	(1,824,799)	1,641,168
Inventories	54,732	(268,312)
Deposits and prepaid expenses	(269,765)	(1,174,404)
Student loans receivable - Net	926,353	968,313
Accounts payable and accrued liabilities	(2,993,522)	(6,499,049)
Accrued payroll	22,626	373,958
Payroll taxes and accrued fringe benefits	321,977	(3,248,550)
Unearned fees and deposits	84,733	(528,753)
Insurance and other claims payable	239,272	(68,474)
Accrued compensated absences	(1,767,477)	(287,608)
Total change in assets and liabilities	<u>(5,205,870)</u>	<u>(9,091,711)</u>
Net cash used in operating activities	<u>\$ (92,678,254)</u>	<u>\$ (102,589,791)</u>

The accompanying notes are an integral part of this statement

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## EASTERN MICHIGAN UNIVERSITY FOUNDATION STATEMENT OF CASH FLOWS Years ended June 30, 2013 and 2012

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 5,987,759	\$ 1,202,286
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	110,136	110,276
Net realized and unrealized (gain) loss on investments	(6,397,317)	1,034,138
Change in value of split-interest agreements	38,307	(215,182)
Change in cash surrender value of life insurance	(11,830)	(6,290)
Contributions restricted for long-term purposes	(1,668,756)	(3,867,845)
Contribution received - land held for investment	-	-
Changes in assets and liabilities:		
Contributions receivable	397,601	2,599,182
Accrued interest and dividends	3,282	(3,912)
Other assets	(1,754)	6,476
Accounts payable	(239,003)	(211,798)
Accrued and other liabilities	(4,632)	180
Net cash (used in) provided by operating activities	\$ (1,786,207)	\$ 647,511
<b>Cash Flows from Investing Activities</b>		
Purchases of equipment	\$ (119,931)	\$ (41,054)
Purchases of investments	(24,529,963)	(24,066,592)
Proceeds from the sale of investments	23,655,279	19,654,881
Net cash used in investing activities	\$ (994,615)	\$ (4,452,765)
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(72,321)	(91,695)
Proceeds from new split-interest agreements	13,749	69,775
Proceeds from contributions restricted for long-term purposes	1,668,756	3,867,845
Net cash provided by financing activities	\$ 1,610,184	\$ 3,845,925
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(1,170,638)	40,671
<b>Cash and Cash Equivalents - Beginning of year</b>	2,188,573	2,147,902
<b>Cash and Cash Equivalents - End of year</b>	\$ <u>1,017,935</u>	\$ <u>2,188,573</u>
<b>Supplemental Cash Flow Information - Cash paid for:</b>		
Interest	\$ 110,632	\$ 113,075

The accompanying notes are an integral part of this statement.

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## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

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

#### Basis of Presentation

The financial statements of Eastern Michigan University (the “University”) have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting research bulletins of the American Institute of Certified Public Accountants (AICPA), Committee or Accounting Procedure.

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

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

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



### 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.

#### Summary of Significant Accounting Policies

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

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

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

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

**Unearned Fees and Deposits** - Unearned fees and deposits primarily include unearned tuition and fee revenue for future semesters, exclusivity contract unearned revenue, and agency balances held in custody for others. Retirement benefit costs are funded as accrued.

**Accrued Compensated Absences** - Accrued compensated absences are comprised of the portion of unused sick leave accrued as of June 30 but not expected to be paid within one year. The portion of sick leave expected to be paid within one year and all accrued vacation leave are included in accrued payroll, taxes, and fringe benefits. In 2013 the University modified the sick leave and short-term disability policy to eliminate sick leave accruals and retirement payouts for certain employees. In addition, the revised

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## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

policy established a new short-term disability plan to provide income protection for certain employees unable to work for an extended period because of non-work-related illness or period of incapacity. The current portions of accrued sick leave and vacation leave were approximately \$400,000 and \$3,374,000 as of June 30, 2013, respectively. The current portions of accrued sick leave and vacation leave were approximately \$400,000 and \$3,468,000 as of June 30, 2012, respectively.

**Change in Accounting Principles** - Effective with the fiscal year ended June 30, 2013, the University adopted the following GASB Statements:

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net position*. This standard provides financial reporting guidance for deferred inflows and outflows of resources and defines those elements as consumption of net position by the University that is applicable to a future reporting period, and an acquisition of Net position by the University that is applicable to a future reporting period, respectively. The University had no deferred inflows or outflows as of June 30, 2013, 2012, or 2011.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The University has no assets or liabilities that would be considered deferred inflows or outflows as of June 30, 2013 and 2012.

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

**Auxiliary Activities** - Auxiliary activities consist of the following as of June 30, 2013 and 2012:

	2013	2012
<u>Operating Revenues:</u>		
Auxiliary Activities, Gross	\$ 42,844,406	\$ 40,688,121
Less: Internal Sales	(370,829)	(353,222)
Less: Scholarship Allowances	(6,129,898)	(5,001,544)
Auxiliary Activities Revenue - Net	<u>\$ 36,343,679</u>	<u>\$ 35,333,355</u>
 <u>Operating Expenses:</u>		
Auxiliary Activities, Gross	\$ 32,472,944	\$ 33,577,634
Less: Internal Sales	(370,829)	(353,222)
Less: Scholarship Allowances	(6,129,898)	(5,001,544)
Auxiliary Activities Expenses - Net	<u>\$ 25,972,217</u>	<u>\$ 28,222,868</u>

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## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

**Operating and Nonoperating Revenues** - The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net position is to report those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues 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. Federal Pell grant revenue is classified as nonoperating due to its nonexchange nature. The amounts received for 2013, 2012, and 2011 are \$34.4 million, \$34.6 million, and \$35.3 million, respectively.

#### Note 2 - Cash and Investments

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

Cash and investments consisted of the following as of June 30, 2013:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years	More than 10 years
<b>Cash and cash equivalents:</b>					
Unrestricted:					
Time deposits	\$ 10,675,634	\$ 10,675,634	\$ -	\$ -	\$ -
Money market funds	887,565	887,565	-	-	-
<b>Total unrestricted cash and cash equivalents</b>	<b>\$ 11,563,199</b>	<b>\$ 11,563,199</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Long-term investments:</b>					
Unrestricted:					
Corporate bond mutual fund	\$ 25,394,087	\$ -	\$ 25,394,087	\$ -	\$ -
Government bonds	77,951	-	-	-	77,951
Domestic equities	9,421,167	-	-	9,421,167	-
Foreign equities	1,728,517	-	-	1,728,517	-
<b>Total long-term unrestricted investments</b>	<b>\$ 36,621,722</b>	<b>\$ -</b>	<b>\$ 25,394,087</b>	<b>\$ 11,149,684</b>	<b>\$ 77,951</b>
Restricted:					
Certificates of deposit	\$ -	\$ -	\$ -	\$ -	\$ -
Time deposits	3,931,959	3,931,959	-	-	-
Government bonds	-	-	-	-	-
<b>Total long-term restricted investments</b>	<b>\$ 3,931,959</b>	<b>\$ 3,931,959</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total cash and investments</b>	<b>\$ 52,116,880</b>	<b>\$ 15,495,158</b>	<b>\$ 25,394,087</b>	<b>\$ 11,149,684</b>	<b>\$ 77,951</b>



## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

Cash and investments consisted of the following as of June 30, 2012:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years	More than 10 years
<b>Cash and cash equivalents:</b>					
Unrestricted:					
Time deposits	\$ 7,393,950	\$ 7,393,950	\$ -	\$ -	\$ -
Money market funds	818,785	818,785	-	-	-
<b>Total unrestricted cash and cash equivalents</b>	<b>\$ 8,212,735</b>	<b>\$ 8,212,735</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Long-term investments:</b>					
Unrestricted:					
Corporate bond mutual fund	\$ 30,438,297	\$ -	\$ 30,438,297	\$ -	\$ -
Government bonds	81,458	-	-	-	81,458
Domestic equities	10,756,905	-	-	10,756,905	-
Foreign equities	2,065,174	-	-	2,065,174	-
<b>Total long-term unrestricted investments</b>	<b>\$ 43,341,834</b>	<b>\$ -</b>	<b>\$ 30,438,297</b>	<b>\$ 12,822,079</b>	<b>\$ 81,458</b>
Restricted:					
Certificates of deposit	\$ 4,833,959	\$ 4,833,959	\$ -	\$ -	\$ -
Government bonds	5,000,058	5,000,058	-	-	-
Corporate bond mutual fund	1,140,422	1,140,422	-	-	-
<b>Total long-term restricted investments</b>	<b>\$ 10,974,439</b>	<b>\$ 10,974,439</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total cash and investments</b>	<b>\$ 62,529,008</b>	<b>\$ 19,187,174</b>	<b>\$ 30,438,297</b>	<b>\$ 12,822,079</b>	<b>\$ 81,458</b>

**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, 2013 and 2012, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	<u>2013</u>		<u>2012</u>	
	<u>Market Value</u>	<u>NRSRO Rating</u>	<u>Market Value</u>	<u>NRSRO Rating</u>
<b>Bond Mutual Funds:</b>				
Corporate Bonds	\$ 25,394,087	AA	\$ 30,438,297	AA
U.S. Government Agency Bonds	77,951	--	81,458	--
<b>Total</b>	<u>\$ 25,472,038</u>		<u>\$ 30,519,755</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, 2013 and 2012. As of June 30, 2013, the banks reported balances in the disbursement accounts at \$11,086,955. Of these balances, \$500,000 was covered by federal depository insurance and \$10,586,955 was uninsured and uncollateralized. As of June 30, 2012, the banks reported balances in the disbursement accounts at \$8,228,042. Of these balances, \$500,058 was covered by federal depository insurance and \$7,727,984 was uninsured and uncollateralized.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's investment policy provides that investments will be diversified within equity and fixed income securities 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.

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## 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, 2013 and 2012:

June 30, 2013:

<u>Instrument</u>	<u>Fair Market Value</u>
JPMorgan Core Bond Select	\$ 3,857,806
PIMCO Total Return Bond Fund	14,083,550
Loomis Sales Bond Fund Instl	4,252,091
Vanguard Small Cap Index-Signal	1,877,759
Vanguard Inst Index VINIX	7,543,408
Total	<u>\$ 31,614,614</u>

June 30, 2012:

<u>Instrument</u>	<u>Fair Market Value</u>
JPMorgan Core Bond Select	\$ 4,599,304
PIMCO Total Return Bond Fund	18,075,918
Loomis Sales Bond Fund Instl	4,623,427
Barclay's Capital	5,000,000
Vanguard Inst Index VINIX	8,551,855
Total	<u>\$ 40,850,504</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, 2013 and 2012, the University had \$1,728,517 and \$2,065,174, 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, 2013 and 2012.



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## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

Investments at the Eastern Michigan University Foundation are as follows:

	2013	2012
Corporate stocks	\$ 40,443,282	\$ 33,561,915
Corporate bonds	3,786,769	3,920,207
Treasury/Federal securities	4,705,569	4,704,404
Certificates of Deposit (Long Term)	573,546	603,018
Real estate	55,000	55,000
Mutual funds	6,821,018	6,268,639
Total	<u>\$ 56,385,184</u>	<u>\$ 49,113,183</u>

Net gains/losses from security transactions for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Unrealized gain (loss)	\$ 3,865,645	\$ (2,038,265)
Realized income	3,575,412	1,783,266
Total	<u>\$ 7,441,057</u>	<u>\$ (254,999)</u>

Trustee and brokerage fees associated with the maintenance of the endowment securities portfolio were \$333,517 and \$405,760 for the years ended June 30, 2013 and 2012, respectively, for Eastern Michigan University Foundation. For recording purposes, these fees have been netted with investment income.

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## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 3 - Receivables

University accounts receivable consist of the following as of June 30, 2013 and 2012:

	2013	2012
Sponsor accounts	\$ 4,365,630	\$ 3,571,815
Student accounts	6,751,478	6,531,595
Charter school appropriation	4,544,112	4,072,428
Third party tuition	535,384	660,228
Other	6,716,227	5,354,594
Subtotal	22,912,831	20,190,660
Less allowances for possible collection losses	(1,512,394)	(1,477,898)
Accounts receivable - Net	<u>\$ 21,400,437</u>	<u>\$ 18,712,762</u>

In addition, the University has student loans receivable of \$10,230,657 and \$11,157,010, net of the related allowance of \$358,666 for both June 30, 2013 and 2012.

Included in contributions receivable for the Foundation are the following unconditional promises to give at June 30, 2013 and 2012:

	2013	2012
Contributions receivable:		
Gross contributions promised	\$ 1,453,745	\$ 1,655,121
Less allowance for uncollectibles	(939,461)	(740,365)
Subtotal	514,284	914,756
Less unamortized discount	(4,804)	(7,675)
Net unconditional promises to give	<u>\$ 509,480</u>	<u>\$ 907,081</u>
Amounts due in:		
Less than one year	\$ 1,057,619	\$ 1,266,978
One to five years	360,126	333,143
More than five years	36,000	55,000
Total	<u>\$ 1,453,745</u>	<u>\$ 1,655,121</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, 2013:

	2012	Additions/ Transfers	Retirements/ Transfers	2013
Non-depreciable:				
Land	\$ 11,653,978	\$ -	\$ -	\$ 11,653,978
Construction in progress	5,489,522	4,274,179	(5,489,522)	4,274,179
Total non-depreciable	17,143,500	4,274,179	(5,489,522)	15,928,157
Depreciable:				
Infrastructure	37,387,443	1,165,233	-	38,552,676
Leasehold improvements	3,408,874	138,691	-	3,547,565
Buildings	564,357,221	16,805,894	-	581,163,115
Library holdings	46,496,097	1,084,110	-	47,580,207
Equipment	79,565,299	2,799,547	(1,283,606)	81,081,240
Total depreciable	731,214,934	21,993,475	(1,283,606)	751,924,803
Total capital assets	748,358,434	26,267,654	(6,773,128)	767,852,960
Less: Accumulated depreciation:				
Infrastructure	26,238,680	969,013	-	27,207,693
Leasehold improvements	3,408,874	13,869	-	3,422,743
Buildings	149,333,433	10,389,022	-	159,722,455
Library holdings	41,300,394	1,515,592	-	42,815,986
Equipment	67,206,945	3,594,515	(1,193,131)	69,608,329
Total accumulated depreciation	287,488,326	16,482,011	(1,193,131)	302,777,206
Capital assets - Net	\$ 460,870,108	\$ 9,785,643	\$ (5,579,997)	\$ 465,075,754



## 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, 2012:

	2011	Additions/ Transfers	Retirements/ Transfers	2012
Non-depreciable:				
Land	\$ 11,653,978	\$ -	\$ -	\$ 11,653,978
Construction in progress	42,927,407	5,489,522	(42,927,407)	5,489,522
Total non-depreciable	54,581,385	5,489,522	(42,927,407)	17,143,500
Depreciable:				
Infrastructure	34,726,276	2,661,167	-	37,387,443
Leasehold improvements	3,408,874	-	-	3,408,874
Buildings	491,127,675	73,229,546	-	564,357,221
Library holdings	45,038,194	1,457,903	-	46,496,097
Equipment	79,457,927	1,614,910	(1,507,538)	79,565,299
Total depreciable	653,758,946	78,963,526	(1,507,538)	731,214,934
Total capital assets	708,340,331	84,453,048	(44,434,945)	748,358,434
Less: Accumulated depreciation:				
Infrastructure	25,261,869	976,811	-	26,238,680
Leasehold improvements	3,408,874	-	-	3,408,874
Buildings	142,071,590	7,261,843	-	149,333,433
Library holdings	39,553,391	1,747,003	-	41,300,394
Equipment	64,606,826	4,024,555	(1,424,436)	67,206,945
Total accumulated depreciation	274,902,550	14,010,212	(1,424,436)	287,488,326
Capital assets - Net	\$ 433,437,781	\$ 70,442,836	\$ (43,010,509)	\$ 460,870,108

The University has encumbrances of \$3,994,967 on various construction projects in progress as of June 30, 2013.

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

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## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

#### Note 5 - Long-term Debt

Long-term debt consists of the following as of June 30, 2013 and 2012:

	Interest Rates	Maturity	2012	Outstanding Principal		2013	Current Portion
				Additions	Retirements/ Defeasance		
Refunding Bonds of 2012B	variable	2037-2049	\$ -	\$ 60,795,000	\$ -	\$ 60,795,000	\$ -
Refunding Bonds of 2012A	variable	2038-2049	-	75,000,000	-	75,000,000	-
Build America Bonds of 2009D	4.21 - 7.21	2014-2038	79,220,000	-	-	79,220,000	825,000
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	2013-2014	2,040,000	-	1,000,000	1,040,000	1,040,000
General Revenue Bonds of 2002B	3.00-5.00	2013	250,000	-	250,000	-	-
General Revenue Bonds of 2002A	5.8	2013-2014	1,995,000	-	1,530,000	465,000	465,000
General Revenue Bonds of 2000	5.00-6.00	2013	1,685,000	-	1,685,000	-	-
			234,145,000	\$135,795,000	\$ 130,260,000	239,680,000	\$ 2,330,000
Less current portion long-term debt			2,965,000			2,330,000	
Long-term debt			\$ 231,180,000			\$ 237,350,000	

## 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, 2012 and 2011:

	Interest Rates	Maturity	2011	Additions	Outstanding Principal Retirements/ Defeasance	2012	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	2012-2014	3,015,000	-	975,000	2,040,000	1,000,000
General Revenue Bonds of 2002B	3.00-5.00	2012-2013	490,000	-	240,000	250,000	250,000
General Revenue Bonds of 2002A	5.8	2012-2014	3,785,000	-	1,790,000	1,995,000	1,530,000
General Revenue Bonds of 2000	5.00-6.00	2012-2024	1,885,000	-	200,000	1,685,000	185,000
			<u>237,350,000</u>	<u>\$ -</u>	<u>\$ 3,205,000</u>	<u>234,145,000</u>	<u>\$ 2,965,000</u>
Less current portion long-term debt			3,205,000			2,965,000	
Long-term debt			<u>\$ 234,145,000</u>			<u>\$ 231,180,000</u>	

On November 30, 2012, the University issued \$75,000,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2012A, and \$60,795,000 of General Revenue Variable Rate Demand Revenue and Refunding Bonds, Series 20012B. These bonds refunded \$125,795,000 General Revenue Variable Rate Demand Refunding Bonds, Series 2009A&B, redeemed \$1,685,000 Series 2000 Bonds, redeemed \$250,000 Series 2002B Bonds, and provided \$7,885,500 for capital projects. 2012 Series A&B bonds amortize over 37 years with principal payments beginning June 30, 2038 and June 30, 2037, respectively. The refunding resulted in a reduction of total interest payments of \$53.9 million and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$3,119,479.

On 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.



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## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

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 29.9% of the total coupon interest paid by the University.

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, 2013 and 2012, the aggregate amount of outstanding principal on all bonds which have been defeased is \$70,000 and \$36,192,250, 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>
2014	2,330,000	12,364,006	14,694,006
2015	2,475,000	12,211,094	14,686,094
2016	2,560,000	12,074,243	14,634,243
2017	2,660,000	11,878,886	14,538,886
2018	2,775,000	11,681,630	14,456,630
2019 - 2023	15,870,000	55,030,170	70,900,170
2024 - 2028	21,075,000	49,219,043	70,294,043
2029 - 2033	26,810,000	41,290,120	68,100,120
2034 - 2038	36,565,000	30,679,932	67,244,932
2039 - 2043	51,115,000	20,502,774	71,617,774
2044 - 2048	61,460,000	10,177,219	71,637,219
2049	<u>13,985,000</u>	<u>554,408</u>	<u>14,539,408</u>
Total	<u>\$ 239,680,000</u>	<u>\$ 267,663,525</u>	<u>\$ 507,343,525</u>

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## 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 amount as the issuance of certain variable rate debt with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly. The 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. The 2001 swap, the 2006 swap, and the 2009 swap were reallocated by the University to the 2012A and 2012B bonds.

All of the swap agreements are deemed ineffective hedges at June 30, 2013 and 2012. 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, 2013 and 2012, 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)	2013	\$ 21,213,876	2013	\$ 25,307,160	\$ 125,235,000	
	2012	\$ (30,786,866)	2012	\$ (46,521,031)	\$ 126,855,000	

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 position. The fair values of the interest rate swaps were estimated on 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.

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	\$15,620,000 \$23,430,000	4.465%	40% - Variable 60% - 68% of LIBOR	6/1/2026	Aa3 (Moody's) A+ (Standard & Poor's)
2/22/2006	Pay-fixed, Receive variable	Cash flow hedge for Series 2006	\$79,015,000	3.317%	62% LIBOR + 20 bps	5/1/2036	Baa1 (Moody's) A- (Standard & Poor's)
6/2/2009	Pay-fixed, Receive variable	Cash flow hedge for Series 2009	\$7,170,000	3.096%	68% LIBOR	3/1/2049	A2 (Moody's) A (Standard & Poor's)

## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

The terms of the swap contracts call for the University to post collateral to the counterparty under certain conditions tied to the prevailing rating of the University and the mark to market valuations of the swaps. As of June 30, 2012 the University posted collateral of \$5 million to the counterparty. No collateral was required to be posted as of June 30, 2013 and 2011, respectively.

**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 swaps decrease, the University's net payment on the swaps increases.

**Basis Risk** The University is exposed to basis risk on its LIBOR-based swaps due to variable-rate payments received by the University on these instruments based on a rate of index other than interest rates the University pays on its variable-rate debt, which is remarketed every 30 days. In December 2012, the University amended a portion of the 2001 fixed payer swap by changing the received rate from Securities Industry and Financial Markets Association (SIFMA) to a percentage of LIBOR. This amendment effectively decreased the swap fixed pay leg from 4.72% to 4.465%. Additionally, this mitigates basis risk between the swap receiving leg and the variable rate resets of the 2012A and 2012B bonds. Since the 2001, 2006, and 2009 swap agreements receive a percentage of LIBOR from the counterparty and pay a percentage of LIBOR for the Series 2012A and 2012B bonds, basis risk is mitigated. As of June 30, 2013, the variable interest rate was 0.14%, whereas 68 percent of one-month LIBOR was 0.13%. As of June 30, 2013, 62 percent of one-month LIBOR plus 20 basis points was 0.321%.

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

Using rates as of June 30, 2013, 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.



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## 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
2014	-	4,603,831	176,113	(426,635)	4,353,309
2015	-	4,579,694	176,113	(421,180)	4,334,627
2016	-	4,544,315	176,113	(411,678)	4,308,750
2017	-	4,507,322	176,113	(401,907)	4,281,528
2018	-	4,468,414	176,113	(391,519)	4,253,008
2019-2023	-	21,690,958	880,565	(1,788,171)	20,783,352
2024-2028	-	20,423,517	880,565	(1,499,372)	19,804,710
2029-2033	-	19,659,844	880,565	(1,097,412)	19,442,997
2034-2038	6,250,000	19,484,271	880,565	(834,449)	25,780,387
2039-2043	45,795,000	15,820,405	715,393	(664,294)	61,666,504
2044-2048	59,765,000	7,912,602	357,805	(332,248)	67,703,159
2048-2049	13,985,000	432,976	19,579	(18,181)	14,419,374
Total	\$ 125,795,000	\$ 128,128,149	\$ 5,495,602	\$ (8,287,046)	\$ 251,131,705

**Restatement due to Accounting Change.** The Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in March 2012. Statement No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The University has implemented GASB 65 effective for the year ended June 30, 2013. The statement was retroactively applied to the earliest year presented. No reclassifications to deferred outflows or inflows of resources were necessary for the years ended June 30, 2013, 2012, or 2011, respectively. This Statement also provides other financial reporting guidance related to the impact of the deferred outflow and inflow of resources. The University is required to expense bond issuance costs previously capitalized. As a result, the University has restated beginning net position and noncurrent assets as of July 1, 2010 by (\$2,241,378).

#### 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.

## EASTERN MICHIGAN UNIVERSITY

### NOTES TO THE FINANCIAL STATEMENTS

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

The cost of the MPSERS plan allocated to the University, all of which was contributed in the applicable year, was approximately \$6,529,000, \$6,655,000, and \$6,128,000 for the years ended June 30, 2013, 2012, and 2011, 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, 2013, 2012, and 2011, the University contributed approximately \$13,740,000, \$13,132,000, and \$12,480,000, 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*. In 2013 the University modified the sick leave and short-term disability policy to eliminate sick leave accruals and retirement payouts for certain employees. In addition, the revised policy established a new short-term disability plan to provide income protection for certain employees unable to work for an extended period because of non-work-related illness or period of incapacity. The liability is approximately \$2,849,000 and \$4,616,000 as of June 30, 2013 and 2012, respectively. Approximately \$400,000 is included in accrued payroll, taxes, and fringe benefits for the years ended June 30, 2013 and 2012. The remaining portion is included in accrued compensated absences.

#### Other Postemployment Benefits

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

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

### NOTES TO THE FINANCIAL STATEMENTS

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

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

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

	2013	2012
Normal cost	\$ 186,000	\$ 88,000
Interest on net OPEB obligation	-	-
Amortization of unfunded actuarial accrued liability	718,000	-
Annual OPEB cost	904,000	88,000
Contributions made	(440,000)	-
Increase in net OPEB obligations	464,000	88,000
Net OPEB obligation - Beginning of year	440,000	352,000
Net OPEB obligation - End of year	\$ 904,000	\$ 440,000

**Funded Status and Funding Progress** - As of July 1, 2012, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$9,382,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,382,000. The covered payroll (annual payroll of active employees covered by the plan) was \$98,403,000 for 2012 and 2011, and the ratio of all UAAL to covered payroll was 9.5 percent for 2012 and 2011.

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

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

In the July 1, 2012 actuarial valuation, the entry age actuarial method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses) based on the expected long-term investment returns on the University's own investments and a salary inflation rate of 2%. The UAAL is being amortized as a projected unit credit level dollar, closed on a 30-year basis. The remaining amortization period at June 30, 2013 was 29 years.



### NOTES TO THE FINANCIAL STATEMENTS

#### 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 \$297,000 and \$426,000 for the years ended June 30, 2013 and 2012, respectively.

#### Note 8 – Issued but not adopted accounting pronouncements

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

**Pensions:** In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The university is currently evaluating the impact this standard will have on the financial statements when adopted. The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. However, if we approximate the liability based on the actuarial accrued liability and allocate based on covered payroll, this computes to a liability of \$73 million. The provisions of this Statement are effective for financial statements for the year ended June 30, 2015.

The University will continue to assess the impact of these new accounting pronouncements on the University's financial statements for adoption in fiscal 2015.

## University Notes to Supplemental Schedules

### Basis of Presentation:

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

#### Current Fund Groupings:

General Fund is used to account for general operating activities.

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

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

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

#### Noncurrent Fund Groupings:

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

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

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

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

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**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2013**

	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents - unrestricted	\$ (11,877,409)	\$ 5,907,484	\$ 6,628,823
Accounts receivable - Net	7,878,453	591,137	3,258,430
Appropriation receivable	12,084,827	-	-
Inventories	532,120	80	631,175
Deposits and prepaid expenses	2,341,275	154	93,599
Accrued interest receivable	48,257	-	-
Total current assets	<u>11,007,523</u>	<u>6,498,855</u>	<u>10,612,027</u>
Noncurrent assets:			
Student loans receivable - Net	-	-	-
Long-term investments - unrestricted	36,543,771	-	-
Long-term investments - restricted	-	-	-
Capital assets - Net	-	-	-
Total noncurrent assets	<u>36,543,771</u>	<u>-</u>	<u>-</u>
Total assets	\$ <u>47,551,294</u>	\$ <u>6,498,855</u>	\$ <u>10,612,027</u>
<b>LIABILITIES</b>			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	5,954,128	189,319	3,599,763
Accrued payroll	8,031,422	-	-
Payroll taxes and accrued fringe benefits	10,074,182	-	904,437
Unearned fees and deposits	5,374,907	89,353	142,034
Insurance and other claims payable	1,432,480	-	662,794
Total current liabilities	<u>30,867,119</u>	<u>278,672</u>	<u>5,309,028</u>
Noncurrent liabilities:			
Accrued compensated absences	2,312,377	-	136,615
Long-term debt	-	-	-
Fair value of derivative instruments	-	-	-
Federal Perkins	-	-	-
Total noncurrent liabilities	<u>2,312,377</u>	<u>-</u>	<u>136,615</u>
Total liabilities	\$ <u>33,179,496</u>	\$ <u>278,672</u>	\$ <u>5,445,643</u>
<b>NET POSITION</b>			
Net Investment in capital assets	\$ -	\$ -	\$ -
Restricted-University development and Perkins loans	-	-	-
Unrestricted			
Designated	-	6,220,183	5,166,384
Undesignated	14,371,798	-	-
Total net position	\$ <u>14,371,798</u>	\$ <u>6,220,183</u>	\$ <u>5,166,384</u>



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## EASTERN MICHIGAN UNIVERSITY

### SCHEDULE OF NET POSITION

#### BY FUND GROUP

as of June 30, 2013

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Consolidated Total
\$ 4,342,917	\$ 1,391,578	\$ 4,576,820	\$ 592,986	\$ 11,563,199
8,803,794	868,623	-	-	21,400,437
-	-	-	-	12,084,827
-	-	-	-	1,163,375
18,395	-	516,476	-	2,969,899
-	379	-	-	48,636
<u>13,165,106</u>	<u>2,260,580</u>	<u>5,093,296</u>	<u>592,986</u>	<u>49,230,373</u>
-	10,230,657	-	-	10,230,657
77,951	-	-	-	36,621,722
-	-	3,931,959	-	3,931,959
-	-	465,075,754	-	465,075,754
<u>77,951</u>	<u>10,230,657</u>	<u>469,007,713</u>	<u>-</u>	<u>515,860,092</u>
\$ <u>13,243,057</u>	\$ <u>12,491,237</u>	\$ <u>474,101,009</u>	\$ <u>592,986</u>	\$ <u>565,090,465</u>
\$ -	\$ -	\$ 2,330,000	\$ -	\$ 2,330,000
4,837,194	520	6,106,334	12,887	20,700,145
-	-	-	-	8,031,422
-	-	-	-	10,978,619
1,384,679	-	-	580,099	7,571,072
-	-	37,500	-	2,132,774
<u>6,221,873</u>	<u>520</u>	<u>8,473,834</u>	<u>592,986</u>	<u>51,744,032</u>
-	-	-	-	2,448,992
-	-	237,350,000	-	237,350,000
-	-	25,307,160	-	25,307,160
-	10,796,240	-	-	10,796,240
<u>-</u>	<u>10,796,240</u>	<u>262,657,160</u>	<u>-</u>	<u>275,902,392</u>
\$ <u>6,221,873</u>	\$ <u>10,796,760</u>	\$ <u>271,130,994</u>	\$ <u>592,986</u>	\$ <u>327,646,424</u>
\$ -	\$ -	\$ 200,088,594	\$ -	\$ 200,088,594
7,021,184	1,694,477	3,931,959	-	12,647,620
-	-	(1,050,538)	-	10,336,029
-	-	-	-	14,371,798
\$ <u>7,021,184</u>	\$ <u>1,694,477</u>	\$ <u>202,970,015</u>	\$ <u>-</u>	\$ <u>237,444,041</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF**  
**REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2013**

	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Fund</u>
<b>OPERATING REVENUES</b>			
Student tuition and fees	\$ 209,424,377	\$ 529,736	\$ -
Scholarship allowances	-	-	-
Net student tuition and fees	<u>209,424,377</u>	<u>529,736</u>	<u>-</u>
Federal grants and contracts	-	-	-
Federal financial aid	-	-	-
State grants and contracts	-	-	-
State financial aid	-	-	-
Nongovernmental grants and contracts	-	7	-
Departmental activities	3,835,481	4,290,971	-
Auxiliary activities - Net	-	-	42,473,577
Indirect cost recovery (deduction)	559,852	662,824	-
Other	<u>2,157,777</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>215,977,487</u>	<u>5,483,538</u>	<u>42,473,577</u>
<b>OPERATING EXPENSES</b>			
Instruction	118,220,933	529,578	-
Research	933,958	34,914	-
Public service	3,754,393	237,137	-
Academic support	31,015,348	629,133	-
Student services	26,506,849	2,511,207	-
Institutional support	29,434,011	800,634	-
Scholarships and fellowships	37,974,917	62,756	-
Operation and maintenance of plant	24,622,971	71,692	-
Auxiliary activities expenses - Net	-	-	32,102,115
Depreciation	-	-	-
Capital additions - Net	1,393,267	50,131	8,645
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>273,856,647</u>	<u>4,927,182</u>	<u>32,110,760</u>
Operating income (loss)	<u>(57,879,160)</u>	<u>556,356</u>	<u>10,362,817</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State appropriations	66,526,774	-	-
Gifts	-	34,938	-
Investment income	2,614,293	-	-
Change in value of derivative instruments	-	-	-
Interest expense	-	-	-
Interest ARRA subsidy	-	-	-
Pell grants	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net nonoperating revenues (expenses) before transfers and capital items	<u>69,141,067</u>	<u>34,938</u>	<u>-</u>
<b>TRANSFERS IN (OUT)</b>			
Mandatory:			
Funds for debt service	(6,459,431)	-	(2,860,063)
Matching funds	(394,020)	1,596	-
Non-mandatory:			
Other	<u>(6,370,279)</u>	<u>22,965</u>	<u>(6,865,712)</u>
Total transfers	<u>(13,223,730)</u>	<u>24,561</u>	<u>(9,725,775)</u>
<b>OTHER REVENUES</b>			
Capital Appropriations	<u>-</u>	<u>-</u>	<u>-</u>
Capital grants and gifts	<u>-</u>	<u>-</u>	<u>-</u>
Total net nonoperating and other revenues (expenses)	<u>55,917,337</u>	<u>59,499</u>	<u>(9,725,775)</u>
Increase (Decrease) in net position	<u>(1,961,823)</u>	<u>615,855</u>	<u>637,042</u>
<b>NET POSITION, Beginning of year</b>	<u>16,333,621</u>	<u>5,604,328</u>	<u>4,529,342</u>
<b>NET POSITION, End of year</b>	<u>\$ 14,371,798</u>	<u>\$ 6,220,183</u>	<u>\$ 5,166,384</u>

## EASTERN MICHIGAN UNIVERSITY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY FUND GROUP For June 30, 2013

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Eliminations	Consolidated
\$ 798,906	\$ -	\$ -	\$ -	210,753,019
-	-	-	(42,288,869)	(42,288,869)
798,906	-	-	(42,288,869)	168,464,150
6,747,485	50,147	-	-	6,797,632
1,578,566	-	-	-	1,578,566
624,949	-	-	-	624,949
723,380	-	-	-	723,380
1,984,092	-	-	-	1,984,099
-	-	-	-	8,126,452
-	-	-	(6,129,898)	36,343,679
(1,222,676)	-	-	-	-
385,997	45,943	-	-	2,589,717
11,620,699	96,090	-	(48,418,767)	227,232,624
1,224,024	-	-	-	119,974,535
3,075,891	-	-	-	4,044,763
7,457,002	-	-	-	11,448,532
57,915	-	-	-	31,702,396
109,812	-	-	-	29,127,868
135,131	-	-	-	30,369,776
39,637,269	-	-	(42,288,869)	35,386,073
-	-	1,717,787	-	26,412,450
-	-	-	(6,129,898)	25,972,217
-	-	16,482,011	-	16,482,011
382,265	-	(1,834,308)	-	-
-	183,007	83,391	-	266,398
52,079,309	183,007	16,448,881	(48,418,767)	331,187,019
(40,458,610)	(86,917)	(16,448,881)	-	(103,954,395)
-	-	-	-	66,526,774
4,504,005	-	-	-	4,538,943
(3,507)	162,923	-	-	2,773,709
-	-	21,213,876	-	21,213,876
-	-	(12,688,334)	-	(12,688,334)
-	-	1,880,893	-	1,880,893
34,394,008	-	-	-	34,394,008
138,162	-	7	5,650	143,819
39,032,668	162,923	10,406,442	5,650	118,783,688
-	-	9,319,494	-	-
392,424	-	-	-	-
85,129	-	13,133,547	(5,650)	-
477,553	-	22,453,041	(5,650)	-
-	-	12,461	-	12,461
-	-	100,638	-	100,638
39,510,221	162,923	32,972,582	-	118,896,787
(948,389)	76,006	16,523,701	-	14,942,392
7,969,573	1,618,471	186,446,314	-	222,501,649
\$ 7,021,184	\$ 1,694,477	\$ 202,970,015	\$ -	\$ 237,444,041

# Draft Sept 18

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2012**

	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents - unrestricted	\$ (14,562,713)	\$ 5,340,849	\$ 5,661,711
Accounts receivable - Net	6,104,108	589,224	3,823,724
Appropriation receivable	11,748,926	-	-
Inventories	623,100	80	594,927
Deposits and prepaid expenses	2,124,464	3,799	21,306
Accrued interest receivable	116,386	-	-
Total current assets	<u>6,154,271</u>	<u>5,933,952</u>	<u>10,101,668</u>
Noncurrent assets:			
Student loans receivable - Net	-	-	-
Long-term investments - unrestricted	43,260,376	-	-
Long-term investments - restricted	-	-	-
Capital assets - Net	-	-	-
Total noncurrent assets	<u>43,260,376</u>	<u>-</u>	<u>-</u>
Total assets	\$ <u><u>49,414,647</u></u>	\$ <u><u>5,933,952</u></u>	\$ <u><u>10,101,668</u></u>
<b>LIABILITIES</b>			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	4,320,605	236,750	3,569,210
Accrued payroll	8,008,796	-	-
Payroll taxes and accrued fringe benefits	9,874,225	-	782,417
Unearned fees and deposits	5,767,270	92,874	258,351
Insurance and other claims payable	1,267,575	-	588,427
Total current liabilities	<u>29,238,471</u>	<u>329,624</u>	<u>5,198,405</u>
Noncurrent liabilities:			
Accrued compensated absences	3,842,555	-	373,921
Long-term debt	-	-	-
Fair value of derivative instruments	-	-	-
Federal Perkins	-	-	-
Total noncurrent liabilities	<u>3,842,555</u>	<u>-</u>	<u>373,921</u>
Total liabilities	\$ <u><u>33,081,026</u></u>	\$ <u><u>329,624</u></u>	\$ <u><u>5,572,326</u></u>
<b>NET POSITION</b>			
Net Investment in capital assets	\$ -	\$ -	\$ -
Restricted-University development and Perkins loans	-	-	-
Unrestricted			
Designated	-	5,604,328	4,529,342
Undesignated	16,333,621	-	-
Total net position	\$ <u><u>16,333,621</u></u>	\$ <u><u>5,604,328</u></u>	\$ <u><u>4,529,342</u></u>



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## EASTERN MICHIGAN UNIVERSITY SCHEDULE OF NET POSITION BY FUND GROUP as of June 30, 2012

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Consolidated Total
\$ 5,434,191	\$ 486,424	\$ 5,236,383	\$ 615,890	\$ 8,212,735
7,424,230	771,476	-	-	18,712,762
-	-	863,456	-	12,612,382
-	-	-	-	1,218,107
500	-	553,710	-	2,703,779
-	379	-	-	116,765
<u>12,858,921</u>	<u>1,258,279</u>	<u>6,653,549</u>	<u>615,890</u>	<u>43,576,530</u>
-	11,157,010	-	-	11,157,010
81,458	-	-	-	43,341,834
-	-	10,974,439	-	10,974,439
-	-	460,870,108	-	460,870,108
81,458	11,157,010	471,844,547	-	526,343,391
<u>\$ 12,940,379</u>	<u>\$ 12,415,289</u>	<u>\$ 478,498,096</u>	<u>\$ 615,890</u>	<u>\$ 569,919,921</u>
\$ -	\$ -	\$ 2,965,000	\$ -	\$ 2,965,000
4,202,107	578	11,348,251	16,745	23,694,246
-	-	-	-	8,008,796
-	-	-	-	10,656,642
768,699	-	-	599,145	7,486,339
-	-	37,500	-	1,893,502
<u>4,970,806</u>	<u>578</u>	<u>14,350,751</u>	<u>615,890</u>	<u>54,704,525</u>
-	-	-	-	4,216,476
-	-	231,180,000	-	231,180,000
-	-	46,521,031	-	46,521,031
-	10,796,240	-	-	10,796,240
-	10,796,240	277,701,031	-	292,713,747
<u>\$ 4,970,806</u>	<u>\$ 10,796,818</u>	<u>292,051,782</u>	<u>\$ 615,890</u>	<u>\$ 347,418,272</u>
\$ -	\$ -	185,757,787	\$ -	\$ 185,757,787
7,969,573	1,618,471	-	-	9,588,044
-	-	688,527	-	10,822,197
-	-	-	-	16,333,621
<u>\$ 7,969,573</u>	<u>\$ 1,618,471</u>	<u>\$ 186,446,314</u>	<u>\$ -</u>	<u>\$ 222,501,649</u>

# Draft Sept 18

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF**  
**REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**BY FUND**  
**For June 30, 2012**

	General Fund	Designated Fund	Auxiliary Fund
<b>OPERATING REVENUES</b>			
Student tuition and fees	\$ 203,848,781	\$ 661,743	\$ -
Scholarship allowances	-	-	-
Net student tuition and fees	<u>203,848,781</u>	<u>661,743</u>	<u>-</u>
Federal grants and contracts	-	-	-
Federal financial aid	-	-	-
State grants and contracts	-	-	-
State financial aid	-	-	-
Nongovernmental grants and contracts	-	-	-
Departmental activities	4,032,149	3,129,536	-
Auxiliary activities revenue, net	-	-	40,334,899
Indirect cost recovery (deduction)	622,719	745,740	-
Other	1,647,388	-	-
Total operating revenues	<u>210,151,037</u>	<u>4,537,019</u>	<u>40,334,899</u>
<b>OPERATING EXPENSES</b>			
Instruction	123,941,816	737,289	-
Research	1,176,542	45,114	-
Public service	3,791,540	237,757	-
Academic support	25,634,413	639,281	-
Student services	27,680,432	2,298,027	-
Institutional support	30,250,095	990,208	-
Scholarships and fellowships	32,533,252	-	-
Operation and maintenance of plant	24,047,151	50,415	-
Auxiliary activities expenses, net	-	-	33,224,412
Depreciation	-	-	-
Capital additions, net	1,633,697	89,136	101,123
Other	-	-	-
Total operating expenses	<u>270,688,938</u>	<u>5,087,227</u>	<u>33,325,535</u>
Operating income (loss)	<u>(60,537,901)</u>	<u>(550,208)</u>	<u>7,009,364</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State appropriations	64,619,095	-	-
Gifts	-	(20,013)	-
Investment income	2,963,237	-	-
Change in value of derivative instruments	-	-	-
Interest expense	-	-	-
Interest ARRA subsidy	-	-	-
Pell grants	-	-	-
Other	-	-	-
Net nonoperating revenues (expenses) before transfers and capital items	<u>67,582,332</u>	<u>(20,013)</u>	<u>-</u>
<b>TRANSFERS IN (OUT)</b>			
Mandatory:			
Funds for debt service	(6,701,247)	-	(2,654,119)
Matching funds	(357,092)	-	-
Non-mandatory:			
Other	(2,184,938)	(908,507)	(6,308,353)
Total transfers	<u>(9,243,277)</u>	<u>(908,507)</u>	<u>(8,962,472)</u>
<b>OTHER REVENUES</b>			
Capital Appropriations	-	-	-
Capital grants and gifts	-	-	-
Total net nonoperating and other revenues (expenses)	<u>58,339,055</u>	<u>(928,520)</u>	<u>(8,962,472)</u>
Increase (Decrease) in net position	<u>(2,198,846)</u>	<u>(1,478,728)</u>	<u>(1,953,108)</u>
<b>NET POSITION, Beginning of year as restated</b>	<u>18,532,467</u>	<u>7,083,056</u>	<u>6,482,450</u>
<b>NET POSITION, End of year</b>	<u>\$ 16,333,621</u>	<u>\$ 5,604,328</u>	<u>\$ 4,529,342</u>

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## EASTERN MICHIGAN UNIVERSITY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY FUND For June 30, 2012

Expendable Restricted Fund	Student Loan Fund	Plant Fund	Eliminations	Consolidated
\$ 750,704	\$ -	\$ -	\$ -	\$ 205,261,228
-	-	-	(37,907,177)	(37,907,177)
750,704	-	-	(37,907,177)	167,354,051
7,210,443	35,044	-	-	7,245,487
2,274,675	-	-	-	2,274,675
292,917	-	-	-	292,917
658,130	-	-	-	658,130
2,500,058	-	-	-	2,500,058
-	-	-	-	7,161,685
-	-	-	(5,001,544)	35,333,355
(1,368,459)	-	-	-	-
608,219	39,328	1,490	-	2,296,425
12,926,687	74,372	1,490	(42,908,721)	225,116,783
620,557	-	-	-	125,299,662
3,810,734	-	-	-	5,032,390
7,412,178	-	-	-	11,441,475
270,165	-	-	-	26,543,859
234,479	-	-	-	30,212,938
110,111	-	-	-	31,350,414
39,649,129	-	-	(37,907,177)	34,275,204
-	-	1,793,594	-	25,891,160
-	-	-	(5,001,544)	28,222,868
-	-	14,010,211	-	14,010,211
77,203	-	(1,901,159)	-	-
-	201,147	143,746	-	344,893
52,184,556	201,147	14,046,392	(42,908,721)	332,625,074
(39,257,869)	(126,775)	(14,044,902)	-	(107,508,291)
-	-	-	-	64,619,095
3,880,429	-	34,758	-	3,895,174
17,509	160,886	(43,536)	-	3,098,096
-	-	(30,786,866)	-	(30,786,866)
-	-	(12,551,502)	-	(12,551,502)
-	-	1,880,893	-	1,880,893
34,627,248	-	-	-	34,627,248
160,526	-	6	-	160,532
38,685,712	160,886	(41,466,247)	-	64,942,670
-	-	9,355,366	-	-
357,092	-	-	-	-
(232,488)	-	9,634,286	-	-
124,604	-	18,989,652	-	-
-	-	10,509,153	-	10,509,153
-	-	951,175	-	951,175
38,810,316	160,886	(11,016,267)	-	76,402,998
(447,553)	34,111	(25,061,169)	-	(31,105,293)
8,417,126	1,584,360	211,507,483	-	253,606,942
\$ 7,969,573	\$ 1,618,471	\$ 186,446,314	\$ -	\$ 222,501,649