

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

**SECTION: 21**  
**DATE:**

October 20, 2017

**RECOMMENDATION**

**CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY  
INFORMATION AS OF JUNE 30, 2017**

**ACTION REQUESTED**

It is recommended that the Board of Regents receive and place on file the University's audited fiscal year 2016-2017 financial statements and auditor's report.

**STAFF SUMMARY**

The Financial Statements and Supplementary Information as of June 30, 2017 together with the Auditors 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 the University and its Foundation.

Financial Statements highlights include:

- Total Net Position at June 30, 2017 of \$134.2 million including \$183.1 million in Capital Assets (net of debt), \$9.6 million in Restricted-Expendable Net Assets and \$58.5 million in Unrestricted Net Liabilities. Total Assets at June 30, 2017 of \$589.4 million and Liabilities of \$456.8 million.
- An increase in Net Position for the year ending June 30, 2017 of \$9.7 million, primarily reflecting a \$13.7 million non-cash gain on valuation of the University's interest rate swaps and \$3.0 million of non-cash gain related to the deferred outflows on the interest rate swaps.
- Unrestricted and Restricted-Expendable Net Liabilities of \$48.9 at June 30, 2017, an increase of \$10.0 million compared to June 30, 2016.

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 statement or audit.

**FISCAL IMPLICATIONS**

None

**ADMINISTRATIVE RECOMMENDATION**

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



University Executive Officer

October 20, 2017  
Date

**EASTERN MICHIGAN UNIVERSITY**

June 30, 2017

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Mr. Timothy Griffith  
Assistant Controller

Mr. Todd Ohmer  
Executive Director, Financial  
Planning & Budgets

**Eastern Michigan University**

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June 30, 2017 and 2016

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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Eastern Michigan University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Eastern Michigan University and its discretely presented component unit as of June 30, 2017 and 2016, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplemental Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eastern Michigan University's basic financial statements. The schedules of net position by fund group and revenues, expenses, and changes in net position by fund as of and for the years ended June 30, 2017 and 2016 are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017 on our consideration of Eastern Michigan University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eastern Michigan University's internal control over financial reporting and compliance.

October 20, 2017

# 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, 2017, 2016, and 2015. 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 Universities 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.

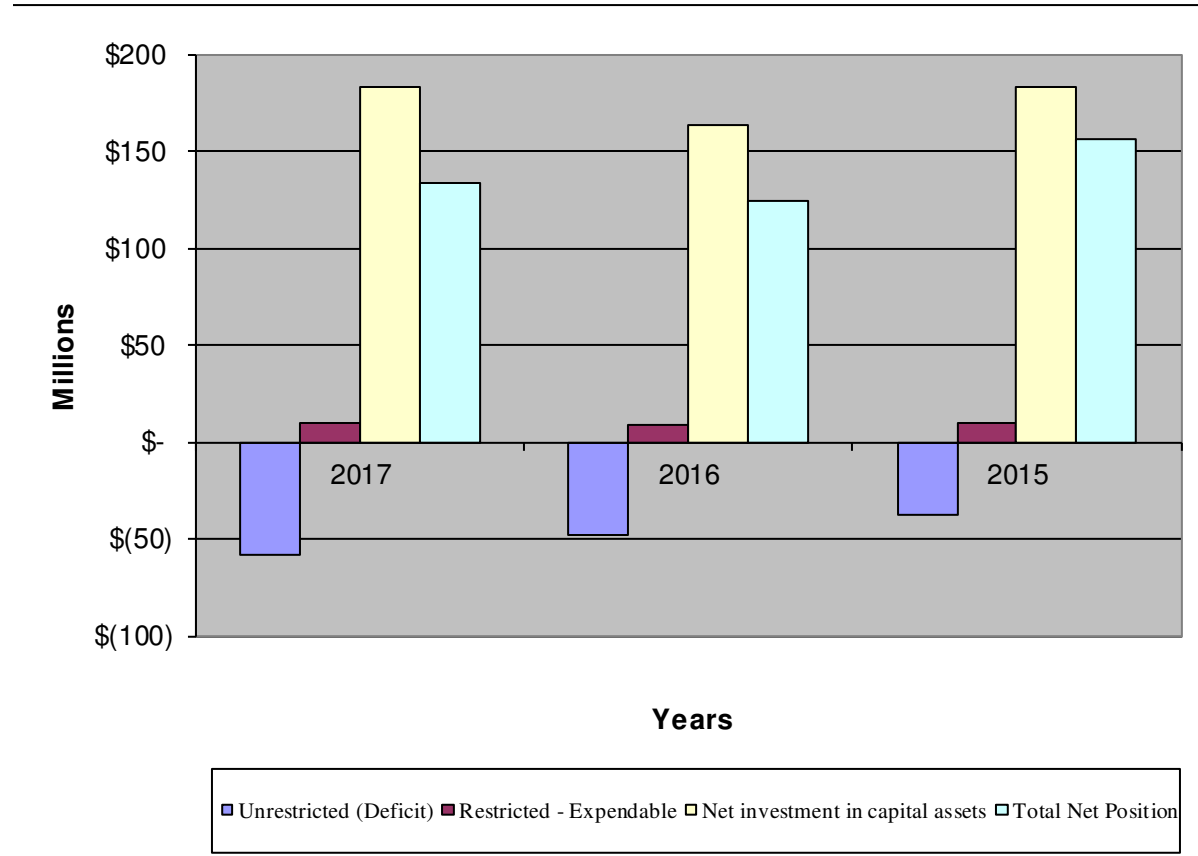
Founded in historic Ypsilanti in 1849, the University occupies 880 acres on the main campus with 122 buildings. In addition, there are off-campus locations in Detroit, Livonia and Traverse City for a student body of over 22,000 students.

### **Financial Highlights**

The University's financial position at June 30, 2017 reflected assets and deferred outflows of \$597 million, and liabilities and deferred inflows of \$463 million. The University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in 2015. Statement No. 68 requires governments participating in a multi-employer defined benefit pension plan to recognize their proportionate share of the unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. In accordance with the statement, the University has reported a Net Pension Liability of \$49.7 million as a change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2014.

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

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2017, 2016, and 2015.



The University's pension liability was \$70.8 million, \$75.5 million and \$50.9 million at June 30, 2017, 2016 and 2015, respectively. As a result, the University has a deficit in unrestricted net position of \$58.5 million, \$47.8 million and \$37.1 million at June 30, 2017, 2016 and 2015, respectively. The difference of \$12.3 million at June 30, 2017 is committed for identified future needs including contractual obligations, debt service, student loans, capital outlay, insurance reserves, future retirement costs, and academic programming needs.



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

**Financial Statements**

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

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

Following is a summary of the major components of the net position and operating results of the University for the years ended June 30, 2017, 2016, and 2015:

<b>Net Position as of June 30 (In millions)</b>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Current assets	\$ 48.0	\$ 48.5	\$ 53.0
Noncurrent assets:			
Capital assets - Net of depreciation	486.2	462.3	454.5
Other	55.2	60.0	65.5
Total assets	\$ <u>589.4</u>	\$ <u>570.8</u>	\$ <u>573.0</u>
<b>Deferred Outflows</b>			
Deferred Outflows	\$ <u>7.9</u>	\$ <u>10.1</u>	\$ <u>7.4</u>
<b>Liabilities</b>			
Current liabilities	\$ 68.4	\$ 61.7	\$ 56.3
Noncurrent liabilities	388.4	389.2	351.7
Total liabilities	\$ <u>456.8</u>	\$ <u>450.9</u>	\$ <u>408.1</u>
<b>Deferred Inflows</b>			
Deferred Inflows	\$ <u>6.3</u>	\$ <u>5.5</u>	\$ <u>17.7</u>
<b>Net Position</b>			
Net Investment in capital assets	183.1	163.5	182.1
Restricted	9.6	8.8	9.7
Unrestricted (Deficit)	(58.5)	(47.8)	(37.1)
Total net position	\$ <u>134.2</u>	\$ <u>124.5</u>	\$ <u>154.7</u>

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>			
Tuition and fees - Net	\$ 173.3	\$ 179.2	\$ 169.0
Grants and contracts	12.3	12.4	12.1
Auxiliary activities - Net	45.9	45.0	43.9
Other	12.8	5.6	5.6
Total operating revenues	<u>244.3</u>	<u>242.2</u>	<u>230.6</u>
<b>Operating Expenses</b>			
Instruction	121.5	120.8	121.0
Research	5.1	3.9	3.1
Public service	12.8	12.9	11.5
Academic support	33.6	34.3	33.4
Student services	18.7	15.1	14.7
Institutional support	31.6	31.5	30.4
Operations and maintenance of plant	28.1	24.5	28.3
Scholarships and fellowships	36.6	42.0	37.4
Auxiliary activities - Net	50.2	48.3	47.9
Depreciation	14.8	14.8	15.3
Other expenditures	0.3	4.8	1.3
Total operating expenses	<u>353.3</u>	<u>352.9</u>	<u>344.3</u>
Net Operating Loss	<b>(109.0)</b>	<b>(110.7)</b>	<b>(113.7)</b>
<b>Nonoperating Revenues (Expenses)</b>			
State appropriations	74.2	71.9	72.6
Gifts	6.2	4.6	4.5
Pell grants	29.2	31.6	32.9
Investment Income	16.0	(21.1)	1.5
Other nonoperating revenue (expenses)	(8.5)	(6.6)	(7.1)
Net Nonoperating Revenues	<u>117.1</u>	<u>80.4</u>	<u>104.4</u>
<b>Capital Contributions</b>			
Capital gifts	1.6	0.1	0.6
Total capital contributions	<u>1.6</u>	<u>0.1</u>	<u>0.6</u>
Increase (Decrease) in Net Position	<b>9.7</b>	<b>(30.2)</b>	<b>(8.6)</b>
Net Position - Beginning of year	124.5	154.7	214.5
Adjustment for change in accounting principle	0.0	0.0	(51.2)
Net Position - Beginning of year as restated	124.5	154.7	163.3
Net Position - End of year	<u>\$ 134.2</u>	<u>\$ 124.5</u>	<u>\$ 154.7</u>

# EASTERN MICHIGAN UNIVERSITY

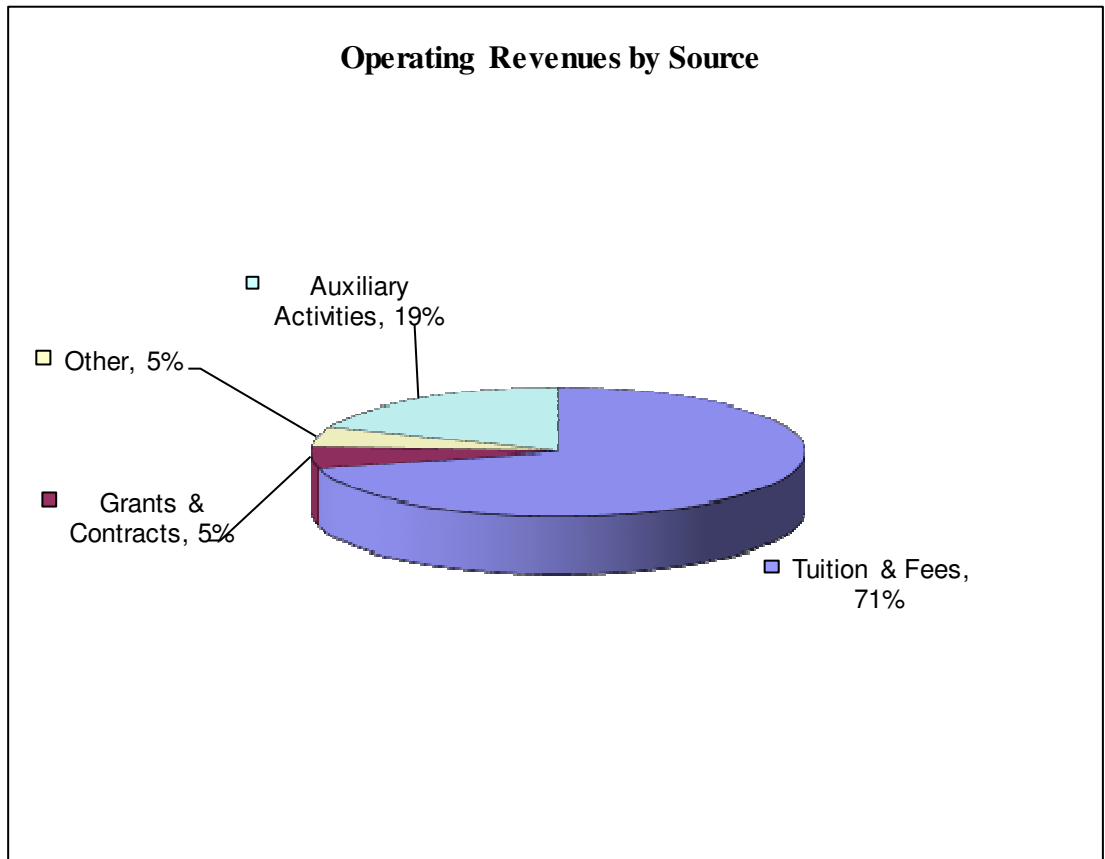
## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Revenues

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

Student tuition and fees revenue decreased slightly (0.46 percent) as a result of a Board of Regents approved tuition and mandatory fee weighted average increase of 4.1 percent effective Fall 2016, offset by lower enrollment.

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



# EASTERN MICHIGAN UNIVERSITY

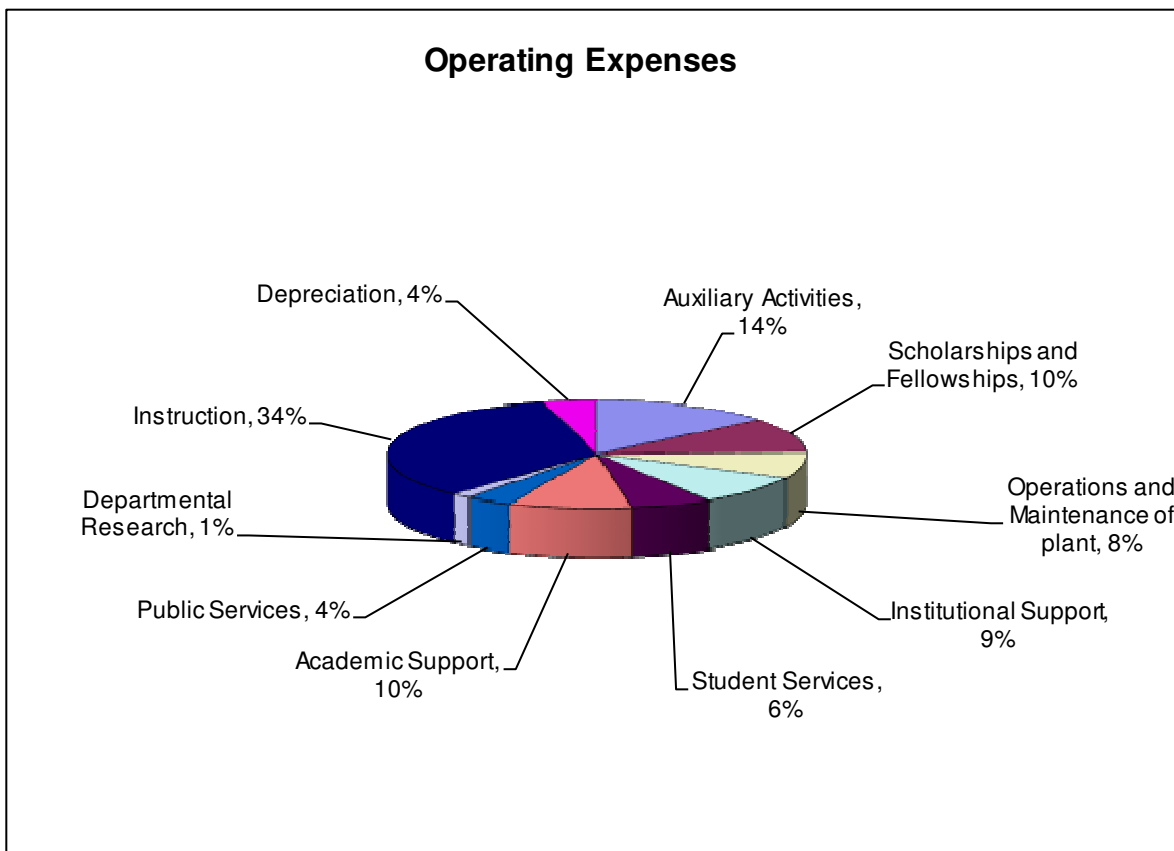
## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Expenses

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

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

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



### 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 \$2.3 million to \$74.1 million in 2017 and decreased \$0.7 million to \$71.9 million in 2016 due to the State's economy.

# EASTERN MICHIGAN UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- In 2017, the 2015 Term Loan was refinanced by the General Revenue and Refunding Bonds, Series 2017. This triggered a terminating event for the interest rate swaps associated with variable-rate debt. As a result, the change in fair value of the interest rate swaps at June 30, 2017 increased investment income by \$13.7 million.
- In 2017 and 2016 interest expense was reduced by \$3.0 million and \$5.6 million, respectively, due to the amortization of the liability related to the interest rate swaps.
- Investment income from operations increased by \$2.0 million to \$2.3 million in 2016 and decreased by \$0.4 million to \$0.3 million in 2016 due to market conditions.
- Pell grants decreased \$2.4 million to \$29.2 million in 2016 and decreased \$1.3 million to \$31.6 million in 2016.

### Capital Contributions

Capital Contributions consist of items that are typically nonrecurring, extraordinary, or unusual to the University. Examples would be capital gifts, capital appropriations from the state or federal government, and transfers from related entities. Capital gifts amounted to \$1.5 million in 2017, \$0.1 million in 2016, and \$0.6 million in 2015.

### Statement of Cash Flows

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Cash Provided by (Used in):</b>			
Operating activities	\$ (92.8)	\$ (51.8)	\$ (49.4)
Noncapital financing activities	109.6	123.4	110.5
Capital and related financing activities	(26.4)	(34.6)	(3.6)
Investing activities	(1.0)	(10.4)	(53.4)
<b>Net (Decrease) Increase in Cash</b>	(10.6)	26.6	4.1
<b>Cash - Beginning of year</b>	41.8	15.2	4.0
<b>Cash - End of year</b>	<u>\$ 31.2</u>	<u>\$ 41.8</u>	<u>\$ 8.1</u>

# EASTERN MICHIGAN UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Cash and Investments

Cash and investments, collectively, decreased by \$4.3 million to \$65.1 million as of June 30, 2017 primarily due to modest increases in operating expenses and additional interest expense.

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 \$92.8 million. To offset this, the net cash provided from non-capital financing activities, which consisted primarily of State appropriations, was \$109.6 million. This is compared to net cash used in operating activities in the amount of \$51.8 million and \$49.4 million for the years ended June 30, 2016 and 2015, respectively. Net cash provided by non-capital financing activities was \$123.4 million and \$110.5 million for the years ended June 30, 2016 and 2015, respectively.

Cash used by capital and related financing activities amounted to \$26.4 million in 2017, \$34.6 million in 2016, and \$3.6 million in 2015, primarily on capital additions.

### Capital Assets

At June 30, 2017, the University had \$486.2 million invested in capital assets, net of accumulated depreciation of \$348.6 million. Depreciation charges totaled \$14.8 million for 2017 and 2016. In 2017, the University completed portions of the Energy Conservation project, portions of the Wise Residence Hall project, and other projects to improve classrooms, residence halls, technology infrastructure, building energy efficiency, and security. Capital projects in progress at June 30, 2017 primarily include the new Electrical Cogeneration project, additional renovations to the Wise Residence Hall, additional components of the Energy Conservation project, initial phases of the Strong Hall project, additional Information Technology infrastructure replacements, and improvements to classrooms and security.

At June 30, 2016, the University had \$462.3 million invested in capital assets, net of accumulated depreciation of \$335.9 million. Depreciation charges totaled \$14.8 million for 2016 compared to \$15.4 million in 2015. In 2016, the University completed the Rackham project, Sculpture Studio renovation, and other projects to improve classrooms, residence halls, technology infrastructure, building energy efficiency, and security. Capital projects in progress at June 30, 2016 primarily include renovations to the Wise Residence Hall, the Energy Conservation project, additional Information Technology infrastructure replacements, and improvements to classrooms and security.

### Debt and Derivatives

On May 4, 2017, the University issued \$155,000,000 of General Revenue and Refunding Bonds, Series 2017. The Series 2017 refunded the \$155,000,000 2015 Term Loan and terminated the 2015 Total Return Swap. The 2017 Total Return Swap was issued in order to hedge the variable rate on the 2017 Series Bonds.

On November 30, 2016, the University issued \$24,060,000 of General Revenue and Refunding Bonds, Series 2016, to redeem the \$20,000,000 2016 Term loan and provide \$4,060,000 for capital projects.

## EASTERN MICHIGAN UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

On August 19, 2016, the University issued \$20,000,000 of the 2016 Term Loan for capital projects.

On June 25, 2015, the University issued \$155,000,000 of the 2015 Term Loan and 2015 Total Return Swap. This loan refunded \$75,000,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2012A, and \$60,795,000 of General Revenue Variable Rate Demand Revenue and Refunding Bonds, Series 2012B and issued \$19,205,000 for new capital projects. In addition, the University received a premium payment of \$3,569,650 which was used for capital projects. The \$158.6 million 2015 Total Return Swap was used to hedge the variable rate on the term loan.

On August 20, 2014, the University issued \$9,860,000 of General Revenue Refunding Bonds, Series 2014. These bonds refunded \$9,860,000 of General Revenue Build America Bonds, Series 2009D. At June 30, 2016, the University had \$251.8 million in obligations outstanding, versus \$254.3 million in 2015 and \$237.4 million in 2014.

The remaining debt instruments are general revenue obligations of the University. Principal payments of \$2.7 million, \$2.6 million and \$2.5 million were made in 2017, 2016 and 2015, respectively.

In addition to the outstanding debt obligations, there are four interest rate swap agreements with notional amounts of \$125.8 million as of June 30, 2017, 2016 and 2015, respectively. These swaps were used to hedge the 2015 Total Return Swap which had a notional amount of \$158.6 million. In 2017, the 2015 Total Return Swap was terminated and a new 2017 Total Return Swap was issued. This created a fifth swap of \$155.0 million in 2017 to replace the \$158.6 million that was wrapped around the original 4 swaps. Under GASB Statement Number 53, the 2015 transaction created a synthetic termination event for three of the swap agreements. In addition, the 2017 transaction created a synthetic termination event for the fourth swap. The fourth swap was also amended in 2015 and is structured as a hybrid instrument having essentially an effective and ineffective component. Under a synthetic termination event, the fair value of the swap is deemed an additional borrowing to be amortized over the life of the related debt. The swaps are then revalued and considered new swaps and eligible for consideration as effective or ineffective swaps. Effective swaps are recorded as assets or liabilities, depending on value, with an offsetting deferred inflow or outflow. Ineffective swaps are recorded as assets or liabilities with offsetting changes in fair value running through investment income. Three of the swaps were deemed to be ineffective hybrid instruments as of June 30, 2017 and 2016. All the swaps but one were deemed to be effective hybrid instruments as of June 30, 2015. As a result, the University has posted a \$1.9 million fair value liability, a current liability of \$2.8 million, a noncurrent liability of \$33.7 million, a deferred inflow of \$4.6 million and a deferred outflow of \$3.0 million as of June 30, 2017.

The University has posted a \$21.3 million fair value liability, a current liability of \$2.8 million, a noncurrent liability of \$31.8 million, a deferred inflow of \$5.0 million and a deferred outflow of \$4.1 million as of June 30, 2016. The University posted a \$9.5 million fair value asset, a current liability of \$5.4 million, a noncurrent liability of \$34.6 million, a deferred inflow of \$12.8 million and a deferred outflow of \$2.3 million as of June 30, 2015.

The terms of the swap agreements call for the University to post collateral to the counterparty under certain conditions tied to the prevailing rating of the University and the mark to market valuations of the swaps. As of June 30, 2017 and 2016, \$14.1 million and \$24.5 million of collateral was posted, respectively. No collateral was required to be posted as of June 30, 2015.

# EASTERN MICHIGAN UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the University's \$125,795,000 of enhanced variable rate debt refinanced in 2009, the credit ratings assigned by Moody's Investor Services (Aaa/VMIG-1) were unchanged in 2017 from 2016 and 2015. Standard and Poor's ratings (AAA/A-1) were unchanged in 2017 from 2016 and 2015. 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 unchanged for the insured portion Aa2 and A2 for the uninsured portion. Standard and Poor's ratings were AAA/A-1 (insured) and BBB+ (uninsured). The highest achievable ratings are "Aaa" and "AAA", respectively. The University's capacity to meet its financial obligations is considered to be strong by the rating agency and reflects limited additional borrowing capacity as of June 30, 2017.

### **Pension Obligations**

In 2015 The University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. The balance of the net pension liability at June 30, 2017, 2016, and 2015 is \$70.8 million, \$75.6 million, and \$50.9 million, respectively.

### **Deferred Inflows and Outflows**

The University had \$6.3 million, \$5.5 million, and \$17.7 million of deferred inflows from interest rate swaps and pension obligations at June 30, 2017, 2016, and 2015, respectively. As of June 30, 2017, 2016, and 2015 the University had \$7.9 million, \$10.1 million, and \$7.4 of deferred outflows from interest rate swaps and pension obligations, respectively.

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

Eastern Michigan University enriches lives in a supportive, intellectually dynamic and diverse community. Its dedicated faculty balance teaching and research to prepare students with relevant skills and real world awareness. Eastern is an institution of opportunity where students learn in and beyond the classroom to benefit the local and global communities.

The University's vision is to be a premier public university recognized for student-centered learning, high quality academic programs, and community impact. Eastern's focus remains on investing in its students and faculty, in academic quality, and in maintaining and improving facilities that enhance the learning environment for its 22,000 students.

Effective July 1, 2016, James M. Smith became Eastern Michigan University's 23rd president. He had previously served as president of Northern State University in Aberdeen, South Dakota since June 2009.

In December 2016, The University announced the appointments of Eunice Jeffries of Farmington Hills and Alexander Simpson of Southfield to the eight-member governing body of the university. They replaced Beth Fitzsimmons and James Stapleton, respectively.



## **EASTERN MICHIGAN UNIVERSITY**

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

On July 1, 2016, EMU entered into an agreement with Chartwells Higher Education to provide residential, retail and catering food services. Under the plan, Chartwells will provide significant capital investment in the University's dining facilities. The company will fund extensive renovation and remodeling, along with introducing exciting new food vendors and develop new dining spaces in additional buildings on campus.

In February 2017, the Eastern Michigan University Board of Regents approved a \$13.8 million capital budget for 2017-2018 that includes investment for improvements to academic facilities in Mark Jefferson Hall and Strong Hall that will help set the stage for completion of the University's largest building project ever, the Science Complex. The budget reflects the University's continued emphasis on improving academic, STEM and student-related facilities, in upgrading classroom technology, and in continued enhancements in campus safety and security.

In June 2017, the University installed a 55-ton turbine into its Heating Plant. With the new project, the University will become nearly fully self-sufficient in production of electricity and heat for campus operations, significantly reducing its carbon footprint and annual energy costs. The Co-Gen (co-generation) project, at a cost of \$19.6 million, replaces a 29-year-old co-generation unit that ceased operations in April 2016.

Also in June, the Eastern Michigan University Board of Regents approved an in-state undergraduate tuition increase at the State of Michigan's tuition restraint cap. By doing so, Eastern qualified for additional appropriation support from the State. With this tuition increase, Eastern continued to invest in strong and high-demand academic programs while maintaining its commitment to provide students with a high quality education at an affordable price.

The Regents also approved a \$308 million general fund operating expenditure budget for fiscal year 2018. The budget reflected a \$2.3 million increase in University-sponsored financial aid over the previous year's budget, again fulfilling Eastern committed to help make college affordable to so many.

Effective for 6/30/18 statements the University will be required to adopt GASB 75, Accounting and Financial reporting for Postemployment Benefits Other Than Pensions, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees, and for governments that finance OPEB for employees of other governments. The University will be required to book a liability for their portion of the MPSER's postretirement health insurance obligation as well as the University sponsored OPEB plan. The impact of the liability is expected to be very significant.

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

**EASTERN MICHIGAN UNIVERSITY**  
**STATEMENT OF NET POSITION**  
**As of June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents - unrestricted (Note 2)	\$ 17,148,845	\$ 17,264,298
Accounts receivable - net (Note 3)	14,802,017	15,465,972
Appropriation receivable	13,380,692	13,051,366
Inventories	413,197	1,363,511
Deposits and prepaid expenses	2,243,515	1,341,827
Accrued interest receivable	28,362	11,603
Total current assets	48,016,628	48,498,577
Noncurrent assets:		
Cash and cash equivalents - restricted (Note 2)	14,100,000	24,500,000
Student loans receivable - net (Note 3)	7,236,788	7,896,098
Long-term investments - unrestricted (Note 2 and Note 4)	23,662,916	17,855,029
Long-term investments - restricted (Note 2 and Note 4)	6,808,423	6,377,676
Long-term investments - real estate (Note 2 and Note 4)	3,360,000	3,360,000
Capital assets - net (Note 5)	486,189,462	462,316,783
Total noncurrent assets	541,357,589	522,305,586
Total assets	\$ 589,374,217	\$ 570,804,163
<b>DEFERRED OUTFLOWS</b>		
Deferred outflows (Note 6 and Note 9)	\$ 7,896,783	\$ 10,136,600
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt (Note 6)	\$ 2,795,000	\$ 2,680,000
Current portion of interest rate swap financing (Note 6)	2,834,911	2,827,539
Accounts payable and accrued liabilities	24,958,546	18,598,268
Accrued payroll, taxes, and fringe benefits	17,507,398	17,956,248
Unearned fees and deposits	17,261,940	17,542,325
Insurance and other claims payable (Note 8)	2,995,062	2,078,962
Total current liabilities	68,352,857	61,683,342
Noncurrent liabilities:		
Accrued compensated absences (Note 7)	1,682,768	1,913,769
Long-term debt (Note 6)	270,350,000	249,085,000
Interest rate swap financing (Note 6)	33,747,157	31,822,490
Fair value of derivative instruments (Note 6)	1,918,816	21,261,077
Net other postemployment benefit obligations (Note 7)	3,338,000	3,025,000
Pension obligation (Note 9)	70,826,130	75,462,865
Federal perkins	6,560,780	6,647,072
Total noncurrent liabilities	388,423,651	389,217,273
Total liabilities	\$ 456,776,508	\$ 450,900,615
<b>DEFERRED INFLOWS</b>		
Deferred inflows (Note 6 and Note 9)	\$ 6,273,221	\$ 5,517,584
<b>NET POSITION</b>		
Net Investment in capital assets	\$ 183,147,948	\$ 163,475,106
Restricted—University development and Perkins loans	9,575,173	8,765,509
Unrestricted (Deficit)	(58,501,850)	(47,718,051)
Total net position	\$ 134,221,271	\$ 124,522,564

The accompanying notes are an integral part of this statement.

# EASTERN MICHIGAN UNIVERSITY FOUNDATION

## BALANCE SHEET

As of June 30, 2017 and 2016

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 1,121,392	\$ 128,115
Investments (Note 2)	71,595,628	66,387,308
Contributions receivable (Note 3)	2,773,620	1,449,492
Life insurance cash surrender value	215,616	209,138
Accounts receivable	10,599	9,992
Property and equipment - Net	1,377,731	1,397,068
Investments held under split-interest agreements (Note 2)	621,864	672,252
Total assets	<u>\$ 77,716,450</u>	<u>\$ 70,253,365</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 894,205	\$ 457,510
Liabilities under split-interest agreements	444,100	500,240
Accrued liabilities	-	4,474
Total liabilities	<u>\$ 1,338,305</u>	<u>\$ 962,224</u>
<b>NET ASSETS</b>		
Unrestricted	\$ 1,177,625	\$ 1,055,481
Temporarily restricted	25,412,639	19,475,235
Permanently restricted	49,787,881	48,760,425
Total net assets	<u>\$ 76,378,145</u>	<u>\$ 69,291,141</u>
Total liabilities and net assets	<u>\$ 77,716,450</u>	<u>\$ 70,253,365</u>

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**For the years ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 228,216,375	\$ 229,278,118
Scholarship allowances	(54,927,845)	(50,051,522)
Net student tuition and fees	173,288,530	179,226,596
Federal grants and contracts	7,156,173	7,248,942
Federal financial aid	1,918,917	1,686,878
State grants and contracts	929,434	1,733,024
State financial aid	1,523,156	852,690
Nongovernmental grants and contracts	849,314	907,429
Departmental activities	10,062,282	3,094,015
Auxiliary activities revenue - Net	45,860,635	44,999,225
Other	2,716,345	2,545,518
Total operating revenues	244,304,786	242,294,317
<b>OPERATING EXPENSES</b>		
Instruction	121,355,083	120,760,357
Research	5,085,290	3,869,461
Public service	12,829,686	12,937,726
Academic support	33,639,649	34,307,141
Student services	18,645,078	15,112,573
Institutional support	31,695,790	31,457,003
Scholarships and fellowships	36,603,359	42,066,714
Operation and maintenance of plant	28,188,846	24,498,719
Auxiliary activities expenses - Net	50,177,225	48,278,914
Depreciation	14,796,547	14,841,297
Other	283,715	4,773,630
Total operating expenses	353,300,268	352,903,535
Operating loss	(108,995,482)	(110,609,218)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	74,150,361	71,887,985
Gifts	6,159,207	4,632,508
Investment Income	15,986,764	(21,021,816)
Interest expense	(10,564,088)	(9,043,753)
Interest ARRA subsidy	1,659,851	1,700,678
Federal Pell grant program	29,245,405	31,622,547
Other	512,369	550,342
Net nonoperating revenues	117,149,869	80,328,491
<b>CAPITAL CONTRIBUTIONS</b>		
Capital gifts	1,544,320	76,813
Total capital contributions	1,544,320	76,813
Increase (Decrease) in net position	9,698,707	(30,203,914)
<b>NET POSITION - Beginning of year</b>	124,522,564	154,726,478
<b>NET POSITION - End of year</b>	\$ 134,221,271	\$ 124,522,564

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**AND CHANGES IN NET ASSETS**  
**Years ended June 30, 2017 and 2016**

	2017	2016
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>		
Contributions	\$ 6,728,227	\$ 8,649,545
Investment income	400,738	145,229
Net realized and unrealized gains (losses)	7,200,924	(1,517,026)
Administrative and management fee	1,488,000	1,593,000
Other revenue	16,428	32,778
Total revenue, gains and other support	15,834,317	8,903,526
<b>EXPENSES</b>		
Contributions to EMU:		
Expendable contributions	\$ 3,560,535	\$ 3,600,788
Contributions from endowment income	2,015,073	1,902,654
General and administrative - Foundation management	655,620	1,110,080
Fundraising	2,671,973	2,447,136
Total expenses	\$ 8,903,201	\$ 9,060,658
<b>Increase (Decrease) in Net Assets Before Other Changes in Net Assets</b>	6,931,116	(157,132)
<b>OTHER CHANGES IN NET ASSETS</b>		
Funds transferred from EMU	168,933	50,137
Change in value of split-interest agreements	(13,045)	(50,357)
<b>Increase (Decrease) in Net Assets</b>	7,087,004	(157,352)
<b>NET ASSETS - Beginning of year</b>	69,291,141	69,448,493
<b>NET ASSETS - End of year</b>	\$ 76,378,145	\$ 69,291,141

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**For the years ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from students for tuition and fees	\$ 228,216,375	\$ 229,941,427
Cash received from auxiliary activities	45,860,636	62,991,282
Cash received from other sources	16,947,670	6,167,198
Grants and contracts	8,934,920	12,928,577
Student loans granted - Net of repayments	682,415	219,008
Scholarship allowances	(63,857,952)	(57,898,452)
Cash paid to suppliers and employees	(241,095,689)	(214,067,409)
Cash paid for financial aid	(88,518,686)	(92,093,992)
Net cash used in operating activities	(92,830,311)	(51,812,361)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
William D. Ford PLUS direct lending receipts	126,206,704	132,356,438
William D. Ford PLUS direct lending disbursements	(126,206,704)	(132,356,438)
Cash received from State appropriations	74,150,361	71,885,911
MPSERS Pension refund	-	14,571,778
Federal Pell grants	29,245,405	31,622,548
Gifts received from EMU Foundation	6,174,326	5,273,916
Net cash provided by noncapital financing activities	109,570,092	123,354,153
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt obligations	199,060,000	-
Principal payments/defeasance under debt obligations	(177,680,000)	(2,575,000)
Interest paid	(8,904,236)	(9,043,753)
Purchases of capital assets	(38,850,758)	(23,022,309)
Net cash used in capital and related financing activities	(26,374,994)	(34,641,062)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(56,000,000)	(61,606,084)
Proceeds from sales and maturities of investments	52,857,505	51,026,817
Interest received	2,262,255	269,363
Net cash used in investing activities	(880,240)	(10,309,904)
Net (decrease) increase in cash and cash equivalents	(10,515,453)	26,590,826
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	41,764,298	15,173,472
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 31,248,845</b>	<b>\$ 41,764,298</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS</b>		
Disposal of fixed assets, net of depreciation	\$ 149,634	\$ 3,220
Capital gifts received in kind	\$ 1,544,320	\$ 76,813

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**For the years ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (108,995,482)	\$ (110,609,218)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	14,796,547	14,841,297
Changes in assets and liabilities:		
Accounts receivable - Net	661,664	3,090,617
Inventories	953,066	(233,884)
Deposits and prepaid expenses	(1,085,861)	3,754,306
Student loans receivable - Net	659,057	438,725
Accounts payable and accrued liabilities	6,360,278	(2,040,794)
Accrued payroll	(444,262)	87,874
Payroll taxes and accrued fringe benefits	(3,029,075)	(330,695)
Unearned fees and deposits	92,291	10,220,766
Net Pension liability	(4,636,735)	24,581,191
Deferred resources - pension	1,153,103	5,237,157
Insurance and other claims payable	916,101	(732,588)
Accrued compensated absences	(231,003)	(117,115)
Total change in assets and liabilities	1,368,624	43,955,560
Net cash used in operating activities	\$ (92,830,311)	\$ (51,812,361)

The accompanying notes are an integral part of this statement.

**EASTERN MICHIGAN UNIVERSITY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**Years ended June 30, 2017 and 2016**

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 7,087,004	\$ (157,352)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	29,751	86,923
Net realized and unrealized (gain) loss on investments	(7,200,924)	1,517,026
Change in value of split-interest agreements	13,045	50,357
Change in cash surrender value of life insurance	(6,478)	108,713
Contributions restricted for long-term purposes	(1,027,456)	(4,635,848)
Impairment expense on property	-	370,000
Changes in assets and liabilities:		
Contributions receivable	(1,324,128)	123,064
Other assets	(607)	(154)
Accounts payable	436,695	110,399
Accrued and other liabilities	(4,474)	-
Net cash used in operating activities	\$ (1,997,572)	\$ (2,426,872)
<b>Cash Flows from Investing Activities</b>		
Purchases of equipment	\$ (10,414)	\$ (16,329)
Purchases of investments	(20,253,355)	(27,504,297)
Proceeds from the sale of investments	22,296,347	25,290,150
Net cash used in investing activities	\$ 2,032,578	\$ (2,230,476)
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(69,185)	(73,708)
Proceeds from contributions restricted for long-term purposes	1,027,456	4,635,848
Net cash provided by financing activities	\$ 958,271	\$ 4,562,140
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	993,277	(95,208)
<b>Cash and Cash Equivalents - Beginning of year</b>	128,115	223,323
<b>Cash and Cash Equivalents - End of year</b>	\$ <b>1,121,392</b>	\$ <b>128,115</b>
<b>Supplemental Cash Flow Information - Cash paid for:</b>		
Interest	\$ 99,312	\$ 102,392

The accompanying notes are an integral part of this statement.



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

**Component Units of the University** - The Eastern Michigan University Foundation financial statements are discretely presented as part of the University’s reporting entity. These statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB). The officers of Eastern Michigan University Foundation include certain University administrative officials and the University has controlling interest in the Foundation’s board.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

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. No modifications have been made to the Foundation financial statements included in the University's financial report. A complete copy of the audited financial statements of Eastern Michigan University Foundation is available at the Foundation offices located near the campus of the University.

#### Summary of Significant Accounting Policies

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

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

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

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

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

**Interest Rate Swaps** – The fair value of interest rate swaps deemed liabilities as of the date of termination of the related debt have been recorded as a liability that is being amortized over the life of the swap contracts using the effective interest method. Amortization for the years ended June 30, 2017 and 2016 was \$3,024,904 and \$5,598,653, respectively, and is recorded as a reduction to interest expense.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

**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. The current portions of accrued sick leave and vacation leave were approximately \$400,000 and \$3,881,000 as of June 30, 2017, respectively. The current portions of accrued sick leave and vacation leave were approximately \$400,000 and \$3,880,000 as of June 30, 2016, respectively.

**Deferred Outflows** – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows consist of accumulated changes in the fair value of hedging derivative instrument and pension obligations described in Note 6 and Note 9, respectively.

**Deferred Inflows** – In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows at June 30, 2017 and 2016 include \$485,658 and \$490,777, respectively, for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date and \$1,187,848 and \$1,394, respectively, related to the pension plan described in Note 9. Deferred inflows also consist of the gain on bond refunding of \$4,599,505 and \$5,025,413 as of June 30, 2017 and 2016, respectively.

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

**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

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

**Auxiliary Activities** - Auxiliary activities consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues:</u>		
Auxiliary Activities, Gross	\$ 55,358,165	\$ 53,443,418
Less: Internal Sales	(567,423)	(597,263)
Less: Scholarship Allowances	(8,930,107)	(7,846,930)
Auxiliary Activities Revenue - Net	<u>\$ 45,860,635</u>	<u>\$ 44,999,225</u>
 <u>Operating Expenses:</u>		
Auxiliary Activities, Gross	\$ 59,674,755	\$ 56,723,107
Less: Internal Sales	(567,423)	(597,263)
Less: Scholarship Allowances	(8,930,107)	(7,846,930)
Auxiliary Activities Expenses - Net	<u>\$ 50,177,225</u>	<u>\$ 48,278,914</u>

**Operating and Nonoperating Revenues** - The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net position is to report those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues due to their non-exchange nature, which include state appropriations and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the University's department within the guidelines of donor restrictions, if any. Federal Pell grant revenue is also classified as nonoperating. The amounts received for 2017 and 2016 are \$29.2 million and \$31.6 million, respectively.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 2 - Cash and Investments

The University utilizes the pooled cash method of accounting for substantially all of its cash and cash equivalents. The University's investment policy, as set forth by the Board of Regents, authorizes investment in securities of the U.S. Treasury and agencies, corporate bonds and notes, commercial paper, time savings deposits, Eurodollars and certain external mutual funds, separately managed funds and other pooled funds. Restricted cash and investments represent unspent bond proceeds utilized for capital projects and collateral associated with the fair value of hedging derivative instruments for the Total Return Swap of 2017. The University's investment objective is to preserve investment principle while deriving a reasonable return consistent with the prevailing market and economic conditions. Investment decisions are based on specific guidelines which incorporate quality, safety, diversity, and liquidity of funds.

Cash and investments consisted of the following as of June 30, 2017:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years
<b>Cash and cash equivalents:</b>				
Unrestricted:				
Time deposits	\$ 17,148,845	\$ 17,148,845	\$ -	\$ -
Money market funds	-	-	-	-
<b>Total unrestricted cash and cash equivalents</b>	<b>\$ 17,148,845</b>	<b>\$ 17,148,845</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Long-term investments:</b>				
Unrestricted:				
Corporate bond mutual fund	\$ 5,377,843	\$ -	\$ 5,377,843	\$ -
Money Market Funds	2,286,152	2,286,152	-	-
Government bonds	89,077	-	-	89,077
Domestic equities	6,691,220	-	6,691,220	-
Foreign equities	3,583,489	-	3,583,489	-
Commingled Funds	4,616,319	-	4,616,319	-
Real Estate	3,360,000	-	3,360,000	-
Hedge Funds	1,018,816	-	1,018,816	-
<b>Total long-term unrestricted investments</b>	<b>\$ 27,022,916</b>	<b>\$ 2,286,152</b>	<b>\$ 24,647,687</b>	<b>\$ 89,077</b>
Restricted:				
Time deposits	\$ 14,100,000	\$ 14,100,000	\$ -	\$ -
Certificates of deposit	3,496,500	3,496,500	-	-
Money Market Funds	818,026	818,026	-	-
Government bonds	2,493,897	2,493,897	-	-
<b>Total long-term restricted investments</b>	<b>\$ 20,908,423</b>	<b>\$ 20,908,423</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total cash and investments</b>	<b>\$ 65,080,184</b>	<b>\$ 40,343,420</b>	<b>\$ 24,647,687</b>	<b>\$ 89,077</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, 2016:

	Fair Market Value	Less than 1 year	1-5 years	6-10 years
<b>Cash and cash equivalents:</b>				
Unrestricted:				
Time deposits	\$ 16,002,627	\$ 16,002,627	\$ -	\$ -
Money market funds	1,261,671	1,261,671	-	-
<b>Total unrestricted cash and cash equivalents</b>	<b>\$ 17,264,298</b>	<b>\$ 17,264,298</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Long-term investments:</b>				
Unrestricted:				
Corporate bond mutual fund	\$ 4,477,885	\$ -	\$ 4,477,885	\$ -
Government bonds	91,554	-	-	91,554
Domestic equities	5,957,429	-	5,957,429	-
Foreign equities	3,571,497	-	3,571,497	-
Commingled Funds	2,787,349	-	2,787,349	-
Real Estate	3,360,000	-	3,360,000	-
Hedge Funds	969,315	-	969,315	-
<b>Total long-term unrestricted investments</b>	<b>\$ 21,215,029</b>	<b>\$ -</b>	<b>\$ 21,123,475</b>	<b>\$ 91,554</b>
Restricted:				
Time deposits	\$ 24,500,000	\$ 24,500,000	\$ -	\$ -
Certificates of deposit	3,508,415	3,508,415	-	-
Money Market Funds	1,042,394	1,042,394	-	-
Government bonds	1,826,867	1,826,867	-	-
<b>Total long-term restricted investments</b>	<b>\$ 30,877,676</b>	<b>\$ 30,877,676</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total cash and investments</b>	<b>\$ 69,357,003</b>	<b>\$ 48,141,974</b>	<b>\$ 21,123,475</b>	<b>\$ 91,554</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. Short-term investments are restricted to at least 50% of the portfolio in U.S. Government Securities and/or U.S. Government Agency issues. The asset allocation, as a percentage of the total market value of the investment pool, is targeted as follows:

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

Asset Class	Target %	Permissible Range %
<b>Equity:</b>	<b>35%</b>	20% - 50%
Domestic All Cap Equities	10%	5% - 20%
International Equities	5%	0% - 10%
Emerging International Equities	5%	0% - 8%
Global Equity	15%	10% - 20%
<b>Fixed Income:</b>	<b>25%</b>	20% - 50%
Core Fixed Income	5%	0% - 10%
Absolute Return Fixed Income	10%	5% - 15%
Emerging Market Debt	5%	0% - 8%
Global Multi-Sector Fixed Income	5%	0% - 10%
<b>Global Asset Allocation / Risk Parity</b>	<b>20%</b>	<b>10% - 30%</b>
<b>Alternatives:</b>	<b>20%</b>	<b>5% - 25%</b>
Hedge Funds	10%	0% - 20%
Real Assets	10%	5% - 15%

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

**Credit Risk** - Investment policies for cash and investments as set forth by the Board of Regents shall be to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. The weighted average credit quality is restricted to be no less than “AAA” (or its equivalent rating by two national rating agencies) for the short-term investment pool. There is no credit quality restriction for the long-term investment pool. At June 30, 2017 and 2016, the University’s debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2017		2016	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
<b>Bond Mutual Funds:</b>				
Corporate Bonds	\$ 5,377,844	BBB	\$ 4,477,885	A
U.S. Government Agency Bonds	2,582,974	--	1,918,421	--
<b>Total</b>	<b>\$ 7,960,818</b>		<b>\$ 6,396,306</b>	

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.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

**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, 2017 and 2016. As of June 30, 2017, the banks reported balances in the disbursement accounts at \$33,489,000. Of these balances, \$695,489 was covered by federal depository insurance and \$32,793,511 was uninsured and uncollateralized. As of June 30, 2016, the banks reported balances in the disbursement accounts at \$41,654,508. Of these balances, \$614,484 was covered by federal depository insurance and \$41,040,025 was uninsured and uncollateralized.

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

The following investments comprise more than 5% of the total investments portfolio as of June 30, 2017 and 2016:

#### June 30, 2017:

BlackRock Strategic Income - Instl	\$	2,365,141
PIMCO All Asset Fund - Instl		2,298,935
Standard Life GARS		2,285,650
Vanguard Total Stock Market VIPERs		2,269,719
Northern Inst Government US Govt Select		2,159,914
AQR Risk Parity II MV Fd		2,122,566
Artisan Global Opportunities		1,838,088
Eaton Vance Hexavest Global Equity		1,745,400
	\$	<u>17,085,413</u>

#### June 30, 2016:

Bank of Ann Arbor Trust Money Market	\$	2,304,032
BlackRock Strategic Income - Instl		2,012,909
AQR Risk Parity II MV Fd		2,006,757
Standard Life GARS		2,002,672
SPDR Russell 3000 Fund		2,002,213
PIMCO All Asset Fund - Instl		1,948,459
Eaton Vance Hexavest Global Equity		1,373,331
Artisan Global Opportunities		1,345,530
	\$	<u>14,995,903</u>



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

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

**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, 2017 and 2016, the University had \$3,583,489 and \$3,571,497, 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, 2017 and 2016.

Investments at the Eastern Michigan University Foundation are as follows:

	<u>2017</u>	<u>2016</u>
Corporate stocks	\$ 199,575	\$ 220,599
Treasury/Federal securities	438,377	438,642
Certificates of Deposit (Long Term)	618,048	621,450
Real estate	55,000	55,000
Land	612,334	612,334
Mutual funds	18,362,790	14,787,408
Commingled Funds - Equity	20,026,988	20,358,367
Commingled Funds - Fixed Income	8,738,369	6,334,182
Commingled Funds - Balanced	15,570,477	14,303,349
Hedge Funds	4,951,013	8,785,580
Private Equity Funds	2,644,521	542,649
Total	<u>\$ 72,217,492</u>	<u>\$ 67,059,560</u>

Net gains/losses from security transactions for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unrealized gain (loss)	\$ 6,437,526	\$ (753,527)
Realized gain (loss)	1,164,136	(618,270)
Total	<u>\$ 7,601,662</u>	<u>\$ (1,371,797)</u>

Trustee and brokerage fees associated with the maintenance of the endowment securities portfolio were \$353,792 and \$373,502 for the years ended June 30, 2017 and 2016, respectively, for Eastern Michigan University Foundation. For recording purposes, these fees have been netted with investment income.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 3 - Receivables

University accounts receivable consist of the following as of June 30, 2017 and 2016:

	2017	2016
Sponsor accounts	\$ 1,448,892	\$ 2,233,338
Student accounts	4,465,243	5,097,576
Charter school appropriation	4,521,526	4,447,125
Third party tuition	393,179	234,812
Other	5,218,923	4,613,893
Subtotal	16,047,763	16,626,744
Less allowances for possible collection losses	(1,245,746)	(1,160,772)
Accounts receivable - Net	\$ 14,802,017	\$ 15,465,972

In addition, the University has student loans receivable of \$7,236,788 and \$7,896,098, net of the related allowance of \$358,666 for both June 30, 2017 and 2016.

Included in contributions receivable for the Foundation are the following unconditional promises to give at June 30, 2017 and 2016:

	2017	2016
Contributions receivable:		
Gross contributions promised	\$ 9,103,587	\$ 1,826,059
Less allowance for uncollectibles	(6,097,997)	(365,212)
Subtotal	3,005,590	1,460,847
Less unamortized discount	(231,970)	(11,355)
Net unconditional promises to give	\$ 2,773,620	\$ 1,449,492
Amounts due in:		
Less than one year	\$ 3,676,548	\$ 1,008,203
One to five years	5,397,039	817,856
More than five years	30,000	0
Total	\$ 9,103,587	\$ 1,826,059

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 - Fair Value Measurements

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The University has the following recurring fair value measurements as of June 30, 2017 and 2016:

	<b>Fair Market Measurements Using</b>			
Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments by fair value level:</b>				
Cash and Cash Equivalents				
Certificates of Deposit	\$ 3,496,500	\$ -	\$ 3,496,500	\$ -
Debt Securities				
U.S. Treasury securities	2,582,974	-	2,582,974	-
Real estate funds				
Real estate (G)	3,360,000	-	-	3,360,000
Equity securities				
Mutual Funds - Balanced	6,691,220	6,691,220	-	-
Mutual Funds - International	3,583,489	3,583,489	-	-
Mutual Funds - Fixed Income	5,377,844	5,377,844	-	-
Total investments by fair value level	\$ 25,092,027	\$ 15,652,553	\$ 6,079,474	\$ 3,360,000
<b>Investments measured at the net asset value (NAV)</b>				
Equity Funds (A)	2,330,669			
Balanced Funds (C)	2,285,650			
Hedge Fund of funds (D)	1,018,815			
Total investments measured at the NAV	5,635,134			
Total investments measured at fair value	\$ 30,727,161			
<b>Investment derivative instruments</b>				
Fair value of derivative instruments (F)	\$ (1,918,816)		\$ (1,918,816)	
Total investment derivatives	\$ (1,918,816)		\$ (1,918,816)	

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 - Fair Value Measurements (continued)

#### University Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2016:

	Fair Market Measurements Using			
	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
Cash and Cash Equivalents				
Certificates of Deposit	\$ 3,508,415	\$ -	\$ 3,508,415	\$ -
Debt Securities				
U.S. Treasury securities	1,918,421	-	1,918,421	-
Real estate funds				
Real estate (G)	3,360,000	-	-	3,360,000
Equity securities				
Exchange Traded Funds	2,002,213	2,002,213	-	-
Mutual Funds - Balanced	3,955,216	3,955,216	-	-
Mutual Funds - International	3,571,497	3,571,497	-	-
Mutual Funds - Fixed Income	4,477,885	4,477,885	-	-
Total investments by fair value level	\$ 22,793,647	\$ 14,006,811	\$ 5,426,836	\$ 3,360,000
<b>Investments measured at the net asset value (NAV)</b>				
Equity Funds (A)	784,677			
Balanced Funds (C)	2,002,672			
Hedge Fund of funds (D)	969,315			
Total investments measured at the NAV	3,756,664			
Total investments measured at fair value	\$ 26,550,311			
<b>Investment derivative instruments</b>				
Fair value of derivative instruments (F)	\$ (21,261,077)		\$ (21,261,077)	
Total investment derivatives	\$ (21,261,077)		\$ (21,261,077)	

**EASTERN MICHIGAN UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Note 4 - Fair Value Measurements (continued)**

The Foundation has the following recurring fair value measurements as of June 30, 2017 and 2016:

**Foundation Assets Measured at Fair Value on a Recurring Basis at June 30, 2017:**

	<b>Fair Market Measurements Using</b>			
	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
Cash and Cash Equivalents				
Certificates of Deposit	\$ 618,048	\$ 618,048	\$ -	\$ -
Debt Securities				
U.S. Treasury securities	438,377	-	438,377	-
Equity securities				
Corporate Stock Securities	199,575	199,575	-	-
Mutual Funds - Equity	4,568,354	4,568,354	-	-
Mutual Funds - Real Asset	5,164,366	5,164,366	-	-
Mutual Funds - Fixed Income	8,630,070	8,630,070	-	-
Total investments by fair value level	\$ 19,618,790	\$ 19,180,413	\$ 438,377	\$ -
<b>Investments measured at the net asset value (NAV)</b>				
Commingled Equity Funds (A)	20,026,988			
Commingled Fixed-income (B)	8,738,369			
Commingled Balanced funds (C)	15,570,477			
Hedge Fund of funds (D)	4,951,013			
Private equity funds (E)	2,644,521			
Total investments measured at the NAV	51,931,368			
Total investments measured at fair value	<u>\$ 71,550,158</u>			

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 - Fair Value Measurements (continued)

#### Foundation Assets Measured at Fair Value on a Recurring Basis at June 30, 2016:

	Fair Market Measurements Using			
	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
Cash and Cash Equivalents				
Certificates of Deposit	\$ 621,450	\$ 621,450	\$ -	\$ -
Debt Securities				
U.S. Treasury securities	438,642	-	438,642	-
Equity securities				
Corporate Stock Securities	220,599	220,599	-	-
Mutual Funds - Equity	4,561,564	4,561,564	-	-
Mutual Funds - Real Asset	3,509,628	3,509,628	-	-
Mutual Funds - Fixed Income	6,716,216	6,716,216	-	-
Total investments by fair value level	\$ 16,068,099	\$ 15,629,457	\$ 438,642	\$ -
<b>Investments measured at the net asset value (NAV)</b>				
Commingled Equity Funds (A)	20,358,367			
Commingled Fixed-income (B)	6,334,182			
Commingled Balanced funds (C)	14,303,349			
Hedge Fund of funds (D)	8,785,580			
Private equity funds (E)	542,649			
Total investments measured at the NAV	50,324,127			
Total investments measured at fair value	\$ 66,392,226			

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of U.S. Treasury Securities at June 30, 2017 and 2016 was determined primarily based on level 2 inputs. The University estimates the fair value of these using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

#### Investments in Entities that Calculate Net Asset Value per Share

The University holds shares or interests in investment companies where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 - Fair Value Measurements (continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

#### University Investments Held at June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016	June 30, 2017		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity Funds (A)	\$ 2,330,669	\$ 784,677	\$ -	Daily	30 days
Balanced Funds (C)	2,285,650	2,002,672	-	Monthly	5 days
Hedge Fund of funds (D)	1,018,815	969,315	-	Quarterly	65 days
Total	<u>\$ 5,635,134</u>	<u>\$ 3,756,664</u>	<u>\$ -</u>		

#### Foundation Investments Held at June 30, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
	Equity funds (A)	\$ 20,026,988	\$ -	Daily
Fixed-income funds (B)	8,738,369	-	Daily	1-2 days
Balanced funds (C)	15,570,477	-	Weekly, Monthly	5-30 days
Hedge fund of funds (D)	4,951,013	-	Monthly, Quarterly	65-75 days
Opportunistic/Private equity (E)	2,644,521	6,084,547	N/A	N/A
Total	<u>\$ 51,931,368</u>	<u>\$ 6,084,547</u>		

#### Foundation Investments Held at June 30, 2016:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
	Equity funds (A)	\$ 20,358,367	\$ -	Daily
Fixed-income funds (B)	6,334,182	-	Daily	1-2 days
Balanced funds (C)	14,303,349	-	Weekly, Monthly	5-30 days
Hedge fund of funds (D)	8,785,580	-	Monthly, Quarterly	65-75 days
Opportunistic/Private equity (E)	542,649	6,376,223	N/A	N/A
Total	<u>\$ 50,324,127</u>	<u>\$ 6,376,223</u>		

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4 - Fair Value Measurements (continued)

- (A) Equity funds invest in publicly traded securities listed in domestic, international, and/or emerging markets. This segment of the portfolio is intended to provide global growth exposure. Investments are diversified across market capitalization and geographic region.
- (B) Fixed-income funds invest in debt instruments of sovereign and/or corporate issuers. This segment of the portfolio is primarily focused on income generation. Investments are diversified across credit quality, market sector, and geographic region.
- (C) Balanced funds have the ability to invest in equity, fixed income, and real assets. The balanced segment is primarily focused on diversification and volatility mitigation via liquid tactical strategies providing exposure which may otherwise be difficult for the portfolio to obtain. The strategies are focused on providing an attractive absolute return at a reasonable level of risk.
- (D) Hedge fund of funds - A fund of hedge funds is an investment vehicle whose portfolio consists of shares in a number of hedge funds. These strategies are typically diversified by manager and investment style and may include allocations to styles such as relative value, event-driven, hedged equity, and global macro, among others. Fund of hedge funds typically target an absolute return that is independent of market returns. Investments in this asset class are meant to provide a diversified alpha source. Holdings in hedge funds are recognized to be less liquid than public market securities and may include a lockup for initial investments. Risk in this asset class is specific to the strategy being utilized. The volatility of hedge funds of funds typically is similar to that of fixed income.
- (E) Opportunistic/Private equity – Private equity is an ownership interest in a non-publicly traded limited liability company (LLC) or limited partnership (LP). The segment is primarily focused on providing global growth exposure. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Investments in this asset class are illiquid and typically include multi-year investment horizons. Risk is specific to the strategy being utilized and may be above that of the general market.
- (F) The fair value of hedging derivative instruments classified in Level 2 at June 30, 2017 and 2016 was valued using available market inputs such as interest rates and yield curves adjusted for nonperformance risk that are observable at commonly quoted intervals.
- (G) For those assets with fair value measured using Level 3 inputs, the University determines fair value measurement policies and procedures in consultation with the real estate appraiser. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the observable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information. As of June 30, 2017 and 2016 the Income Capitalization method was used for determining the appraised value of the real estate.



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 - Capital Assets

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2017:

	2016	Additions/ Transfers	Retirements/ Transfers	2017
<b>Non-depreciable:</b>				
Land	\$ 11,724,697	\$ -	\$ -	\$ 11,724,697
Construction in progress	11,727,674	21,915,906	(11,727,674)	21,915,906
Total non-depreciable	<u>23,452,371</u>	<u>21,915,906</u>	<u>(11,727,674)</u>	<u>33,640,603</u>
<b>Depreciable:</b>				
Infrastructure	42,309,890	3,599,512	-	45,909,402
Leasehold improvements	514,689	-	-	514,689
Buildings	598,572,199	21,965,438	-	620,537,637
Library holdings	49,351,130	533,190	-	49,884,320
Equipment	84,048,025	2,564,386	(2,328,760)	84,283,651
Total depreciable	<u>774,795,933</u>	<u>28,662,526</u>	<u>(2,328,760)</u>	<u>801,129,699</u>
Total capital assets	<u>798,248,304</u>	<u>50,578,432</u>	<u>(14,056,434)</u>	<u>834,770,302</u>
<b>Less: Accumulated depreciation:</b>				
Infrastructure	30,122,157	1,151,005	-	31,273,162
Leasehold improvements	270,772	102,937	-	373,709
Buildings	184,823,434	9,736,184	-	194,559,618
Library holdings	46,512,366	957,549	-	47,469,915
Equipment	74,202,792	2,848,872	(2,147,228)	74,904,436
Total accumulated depreciation	<u>335,931,521</u>	<u>14,796,547</u>	<u>(2,147,228)</u>	<u>348,580,840</u>
Capital assets - Net	<u>\$ 462,316,783</u>	<u>\$ 35,781,885</u>	<u>\$ (11,909,206)</u>	<u>\$ 486,189,462</u>

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5 - Capital Assets (continued)

The following table presents the changes in various fixed asset class categories for the year ended June 30, 2016:

	2015	Additions/ Transfers	Retirements/ Transfers	2016
<b>Non-depreciable:</b>				
Land	\$ 11,653,978	\$ 70,719	\$ -	\$ 11,724,697
Construction in progress	6,867,030	11,727,674	(6,867,030)	11,727,674
Total non-depreciable	<u>18,521,008</u>	<u>11,798,393</u>	<u>(6,867,030)</u>	<u>23,452,371</u>
<b>Depreciable:</b>				
Infrastructure	41,609,636	700,254	-	42,309,890
Leasehold improvements	514,689	314,478	(314,478)	514,689
Buildings	585,972,950	12,599,249	-	598,572,199
Library holdings	48,780,579	570,551	-	49,351,130
Equipment	82,077,504	3,906,414	(1,935,893)	84,048,025
Total depreciable	<u>758,955,358</u>	<u>18,090,946</u>	<u>(2,250,371)</u>	<u>774,795,933</u>
Total capital assets	<u>777,476,366</u>	<u>29,889,339</u>	<u>(9,117,401)</u>	<u>798,248,304</u>
<b>Less: Accumulated depreciation:</b>				
Infrastructure	29,055,037	1,067,120	-	30,122,157
Leasehold improvements	167,835	102,937	-	270,772
Buildings	175,315,260	9,508,174	-	184,823,434
Library holdings	45,409,143	1,103,223	-	46,512,366
Equipment	73,075,620	3,059,843	(1,932,671)	74,202,792
Total accumulated depreciation	<u>323,022,895</u>	<u>14,841,297</u>	<u>(1,932,671)</u>	<u>335,931,521</u>
Capital assets - Net	<u>\$ 454,453,471</u>	<u>\$ 15,048,042</u>	<u>\$ (7,184,730)</u>	<u>\$ 462,316,783</u>

The University has encumbrances of \$27,786,888 on various construction projects in progress as of June 30, 2017. Certain University facilities, including the Bruce T. Halle Library, John W. Porter College of Education, Boone Hall, Everett L. Marshall College of Health and Human Services Building, the William H. Smart Physical Plant, the Student Center, and the Pray-Harrod Building have been financed in whole or in part by State Building Authority ("SBA") bond issues which are secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements between the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to the respective buildings, the State of Michigan will make all lease payments to the SBA, and the University will pay all operating and maintenance costs. At the expiration of the individual leases, the SBA has agreed to sell each building to the University for one dollar.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Long-term Debt

Long-term debt consists of the following as of June 30, 2017 and 2016:

	Interest Rates	Maturity	<u>Outstanding Principal</u>				
			2016	Additions	Retirements/ Defeasance	2017	Current Portion
General Revenue and Refunding							
Bonds of 2017	5.00%	2021-2049	\$ -	\$ 155,000,000	\$ -	\$ 155,000,000	\$ -
General Revenue and Refunding							
Bonds of 2016	3.375 - 4.125%	2028-2047	-	24,060,000	-	24,060,000	-
Term Loan							
of 2016	SIFMA Index Rate	2017	-	20,000,000	20,000,000	-	-
Term Loan							
of 2015	5.00%	2017	155,000,000	-	155,000,000	-	-
Refunding Bonds							
of 2014	2.00 - 4.00%	2017-2029	9,845,000	-	20,000	9,825,000	20,000
Build America							
Bonds of 2009D	5.33 - 7.21%	2017-2038	63,760,000	-	2,660,000	61,100,000	2,775,000
General Revenue							
Bonds of 2009C	4.00 - 5.00%	2022-2027	23,160,000	-	-	23,160,000	-
			251,765,000	\$ 199,060,000	\$ 177,680,000	273,145,000	\$ 2,795,000
Less current portion long-term debt			2,680,000			2,795,000	
Long-term debt			\$ 249,085,000			\$ 270,350,000	

Long-term debt consists of the following as of June 30, 2016 and 2015:

	Interest Rates	Maturity	<u>Outstanding Principal</u>				
			2015	Additions	Retirements/ Defeasance	2016	Current Portion
Term Loan							
of 2015	5.00%	2021-2049	\$ 155,000,000	\$ -	\$ -	\$ 155,000,000	\$ -
Refunding Bonds							
of 2014	2.00 - 4.00%	2016-2029	9,860,000	-	15,000	9,845,000	20,000
Build America							
Bonds of 2009D	5.33 - 7.21%	2016-2038	66,320,000	-	2,560,000	63,760,000	2,660,000
General Revenue							
Bonds of 2009C	4.00 - 5.00%	2022-2027	23,160,000	-	-	23,160,000	-
			254,340,000	\$ -	\$ 2,575,000	251,765,000	\$ 2,680,000
Less current portion long-term debt			2,575,000			2,680,000	
Long-term debt			\$ 251,765,000			\$ 249,085,000	

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Long-term Debt (continued)

On May 4, 2017, the University issued \$155,000,000 of General Revenue and Refunding Bonds, Series 2017. The Series 2017 refunded the \$155,000,000 2015 Term Loan and terminated the 2015 Total Return Swap. The 2017 Total Return Swap was issued in order to hedge the variable rate on the 2017 Series Bonds. The Series 2017 amortizes over 29 years with principal payments beginning in 2021. The refunding resulted in a reduction of total interest payments of \$648,762 and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$18,021.

On November 30, 2016, the University issued \$24,060,000 of General Revenue and Refunding Bonds, Series 2016, to redeem the \$20,000,000 2016 Term loan and provide \$4,060,000 for capital projects. The Series 2016 amortizes over 20 years with principal payments beginning in 2028.

On August 19, 2016, the University issued a \$20,000,000 2016 Term Loan for capital projects.

On June 25, 2015, the University issued a \$155,000,000 Term Loan, Series 2015. This loan refunded \$75,000,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2012A, and \$60,795,000 of General Revenue Variable Rate Demand Revenue and Refunding Bonds, Series 2012B and issued \$19,205,000 on the term loan for new capital projects. In addition, the University received a premium payment on the term loan of \$3,569,650 for new capital projects. The 2015 Term Loan amortizes over 34 years with principal payments beginning June 30, 2016. The refunding resulted in a reduction of total interest payments of \$838,483 and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$31,009.

On August 20, 2014, the University issued \$9,860,000 of General Revenue Refunding Bonds, Series 2014. These bonds refunded \$9,860,000 of General Revenue Build America Bonds, Series 2009D. 2014 Series bonds amortize over 14 years with principal payments beginning June 30, 2016. The refunding resulted in a reduction of total interest payments of \$5.9 million and an economic gain (difference between the present values of the interest payments on the old and new debt) of \$549,265.

On November 30, 2012, the University issued \$75,000,000 of General Revenue Variable Rate Demand Refunding Bonds, Series 2012A, and \$60,795,000 of General Revenue Variable Rate Demand Revenue and Refunding Bonds, Series 2012B. 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 June 10, 2009, the University issued \$102,380,000 of General Revenue Bonds, Series 2009C and 2009D, to fund capital projects. Series 2009C for \$23,160,000 are tax-exempt bonds. Series 2009D for \$79,220,000 are taxable issuer Build America Bonds authorized by Section 1531 of the American Recovery and Reinvestment Act of 2009. The University will receive payments from the Federal Treasury equal to 32.5% of the total coupon interest paid by the University.

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

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Long-term Debt (continued)

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.

Subsequent to year end, on August 31, 2017 the University refinanced the Series 2009C and 2009D General Revenue Bonds. The 2017B General Refunding Bonds is a standard advance refunding for \$23,160,000 of Series 2009C tax-exempt bonds and a cross-over refunding for \$61,060,000 of Series 2009D taxable issuer Build America General Revenue Bonds. The \$73,150,000 proceeds will go into escrow and both series are a legal defeasance of the debt with the liability coming off the Statement of Net Position.

### Interest Rate Swaps:

On May 4, 2017, the University entered into a 2017 Total Return Swap in order to hedge the variable rate on the 2017 Series Bonds. The 2017 Total Return Swap terminated the 2015 Total Return Swap and wraps around the 2001, 2006 and 2009 swap agreements, which were established at the same time and for the same amount as the issuance of certain variable rate debt with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly.

On June 25, 2015 the University entered into a Total Return swap transaction with Barclays Bank PLC in the notional amount of the 2015 Term Loan of \$155,000,000 plus a premium of \$3,569,650. The 2015 Total Return swap agreement wrapped around the 2001, 2006 and 2009 swap agreements, which were established at the same time and for the same amount as the issuance of certain variable rate debt with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly. In addition, on June 19, 2015, the University refinanced the 2009 single-mini swap that is used to replace, over time, the amortizing notional amounts of the 2001 and 2006 swaps.

The May 4, 2017 refinancing of the 2015 Term Loan, the June 19, 2015 refinancing of the 2009 swap and the June 25, 2015 refunding of the debt associated with the original swaps created synthetic termination events. Under a synthetic termination event, the fair value of the swap associated with the termination event is deemed an additional borrowing (also referred to as a financing element) to be amortized over the life of the related debt. The synthetic terminated swaps are then revalued and considered new swaps and eligible for consideration as effective or ineffective swaps. Effective swaps are recorded as hedging derivative instrument assets or liabilities (also referred to as embedded derivatives), with an offsetting deferred inflow or outflow. Ineffective swaps are recorded as hedging derivative investment assets or liabilities with offsetting changes in fair value running through investment income. Based on regression analysis and/or dollar offset method, all but two of the swap agreements have been determined to be ineffective hedging derivative instruments as of June 30, 2017 and 2016. All but one of the swap agreements were determined to be effective hedging derivative instruments as of June 30, 2015.

Regression analysis evaluated effectiveness by considering the statistical relationship between the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item. The changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item when certain criteria were met. Under the dollar-offset method, the changes in the fair value of the derivative are divided by the changes in fair value of the hedgeable item. This evaluation may be made using changes in the current period or on a life-to-date basis. The result of the calculation must fall within 80% to 125% percent in order for the derivative to be considered effective.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Long-term Debt (continued)

In accordance with GASB 53, these swaps are considered hybrid instruments consisting of a financing element (\$36,582,068 and \$34,650,029 for June 30, 2017 and 2016, respectively) and an embedded derivative ((\$1,918,816) and (\$21,261,077) for June 30, 2017 and 2016, respectively). The financing element is reported as an interest rate swap liability that is being amortized over the remaining life of the original debt. The embedded derivative is reported as a fair value of derivative instrument asset or liability with an offsetting deferred inflow or outflow within the Statement of Net Position. The swaps considered no longer effective are treated as an investment at fair value. The deferred inflow or outflow at time determined ineffective is immediately recognized in investment income.

Due to the terms of the 2015 refinancing of the 2009 single-mini swap that balances the notional amounts used to offset the Total Return Swap, it is considered a hybrid instrument with a component considered at market and a component considered off market. The at-market component is still considered recorded at fair value with an offsetting deferred inflow or outflow. The off market component is considered a borrowing recorded at cost with a deferral that will be amortized over the remaining life of the original debt. The requirements of the accounting standard result in a dual presentation which is further outlined below as of June 30, 2017 and 2016:

June 30, 2017:

Series	Fixed Rate Paid by EMU	Variable Rate Paid by EMU	Fixed Rate Received by EMU	Variable Rate Received by EMU	Contract Provider	Credit rating	Scheduled	Inception date
						(Moody's / Standard & Poors)	Termination Date	
Total Return Swap 2017	-	68% of LIBOR	5.000%	-	Barclays	A2/BBB	9/1/2020	5/4/2017
Series 2001	4.465%	-	-	68% of LIBOR	JPMorgan	Aa3/A+	6/1/2027	11/30/2012
Series 2001	4.72%	-	-	68% of LIBOR	JPMorgan	Aa3/A+	6/1/2027	7/27/2001
Series 2006	3.317%	-	-	62% of LIBOR + 20 basis points	Barclays	A2/BBB	6/1/2036	1/23/2006
Series 2015 (formerly 2009)	3.141%	-	-	68% of LIBOR	Barclays	A2/BBB	3/1/2049	6/19/2015

#### Hedging derivative instruments:

Series	Current notional amount	July 1, 2016 fair value	Change in fair value (reported as deferred		June 30, 2017 Fair Value	June 30, 2017 Deferred Inflows	June 30, 2017 Deferred Outflows
			inflow/(outflow))	June 30, 2017			
Receive-fixed, pay-variable interest rate swaps:							
Series 2017, original notional amount of \$158.7 million	\$ 155,000,000	\$ (1,783,654)	\$ (976,896)	\$ (2,760,550)	\$ -	\$ 2,760,550	
Receive-variable, pay-fixed interest rate swaps:							
Series 2015, original notional amount of \$2.5 million - maturities through 2020	26,435,000	(2,338,512)	2,063,610	(274,902)	-	274,902	
Total Hedging instruments				<u>\$ (3,035,452)</u>		<u>\$ 3,035,452</u>	

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Long-term Debt (continued)

#### Investment derivative instruments:

Series	Current notional amount	July 1, 2016 fair value	Change in fair value (reported as investment income)	June 30, 2017 Fair Value	Reclassification to Investment derivative included in investment income	Total impact on investment income year ended June 30, 2017
Receive-variable, pay-fixed interest rate swaps:						
Series 2001, original notional amount of \$15.7 million	\$ 12,342,000	\$ (594,853)	\$ 560,674	\$ (34,179)	\$ -	\$ 560,674
Series 2001, original notional amount of \$24.8 million	18,513,000	(897,008)	848,226	(48,782)	-	848,226
Series 2006, original notional amount of \$85.7 million	68,505,000	(2,536,245)	3,735,842	1,199,597	-	3,735,842
Series 2015, original notional amount of \$2.5 million - maturities from 2021 through 2049	26,435,000	(13,110,805)	13,110,805	-	(4,531,035)	8,579,770
Total Investment derivative instruments			<u>\$ 18,255,547</u>	<u>\$ 1,116,636</u>		<u>\$ 13,724,512</u>

#### June 30, 2016:

Series	Fixed Rate Paid by EMU	Variable Rate Paid by EMU	Fixed Rate Received by EMU	Variable Rate Received by EMU	Contract Provider	Credit rating (Moody's / Standard & Poors)	Scheduled Termination Date	Inception date
Total Return Swap 2015	-	68% of LIBOR	5.000%	-	Barclays	A2/BBB	9/1/2020	6/25/2015
Series 2001	4.465%	-	-	68% of LIBOR	JPM organ	Aa3/A+	6/1/2027	11/30/2012
Series 2001	4.72%	-	-	68% of LIBOR	JPM organ	Aa3/A+	6/1/2027	7/27/2001
Series 2006	3.317%	-	-	62% of LIBOR + 20 basis points	Barclays	A2/BBB	6/1/2036	1/23/2006
Series 2015 (formerly 2009)	3.141%	-	-	68% of LIBOR	Barclays	A2/BBB	3/1/2049	6/19/2015

#### Hedging derivative instruments:

Series	Current notional amount	July 1, 2015 fair value	Change in fair value (reported as deferred inflow/(outflow))	June 30, 2016 Fair Value	June 30, 2016 Deferred Inflows	June 30, 2016 Deferred Outflows
Receive-fixed, pay-variable interest rate swaps:						
Series 2015, original notional amount of \$158.6 million	\$ 156,526,750	\$ 7,583,676	\$ (9,367,330)	\$ (1,783,654)	\$ -	\$ 1,783,654
Receive-variable, pay-fixed interest rate swaps:						
Series 2015, original notional amount of \$2.5 million - maturities through 2020	20,985,000	(145,172)	(2,193,340)	(2,338,512)	-	2,338,512
Total Hedging instruments			<u>\$ (4,122,166)</u>			<u>\$ 4,122,166</u>

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Long-term Debt (continued)

**Investment derivative instruments:**

Series	Current notional amount	July 1, 2015 Fair Value	Change in fair value (reported as investment income)	June 30, 2016 Fair Value	Reclassification to Investment derivative included in investment income	Total impact on investment income year ended June 30, 2016
Receive-variable, pay-fixed interest rate swaps:						
Series 2001, original notional amount of \$15.7 million	\$ 13,278,000	\$ (23,600)	\$ (571,253)	\$ (594,853)	\$ (309,152)	\$ (880,405)
Series 2001, original notional amount of \$24.8 million	19,917,000	(35,285)	(861,723)	(897,008)	(474,916)	(1,336,639)
Series 2006, original notional amount of \$85.7 million	71,615,000	2,084,636	(4,620,881)	(2,536,245)	-	(4,620,881)
Series 2015, original notional amount of \$2.5 million - maturities from 2021 through 2049	20,985,000	1,342,447	(14,453,252)	(13,110,805)	-	(14,453,252)
Total Investment derivative instruments			<u>\$ (20,507,109)</u>	<u>\$ (17,138,911)</u>		<u>\$ (21,291,177)</u>

**Credit Risk** The University is exposed to credit risk on hedging derivative instruments that are in asset positions. The terms of the swap agreement require collateralization of the fair value of hedging derivative instruments in asset positions based on a scale that evaluates both the market value of the swap and the counterparty's credit rating. The terms of the Total Return Swap of 2017 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, 2017 and 2016, \$14,100,000 and \$24,500,000 of collateral was posted, respectively. There is no exposure to credit risk on the hedging derivative instruments in liability position.

**Interest Rate Risk** The University is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR swaps decrease, the University's net payment on the swaps increases.

**Basis Risk** The University is exposed to basis risk on its LIBOR-based swaps due to variable-rate payments received by the University on these instruments based on a rate of index other than interest rates the University pays on its variable-rate debt, which is remarketed every 30 days. In December 2012, the University amended a portion of the 2001 fixed payer swap by changing the received rate from Securities Industry and Financial Markets Association (SIFMA) to a percentage of LIBOR. This amendment effectively decreased the swap fixed pay leg from 4.72% to 4.465%. Additionally, this mitigates basis risk between the swap receiving leg and the variable rate resets of the 2012A and 2012B bonds. Since the 2001, 2006, and 2015 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, 2017, the variable interest rate was 0.71%, whereas 68 percent of one-month LIBOR was 0.83%. As of June 30, 2017, 62 percent of one-month LIBOR plus 20 basis points was 0.96%. As of June 30, 2016, the variable interest rate was 0.45%, whereas 68 percent of one-month LIBOR was 0.32%. As of June 30, 2016, 62 percent of one-month LIBOR plus 20 basis points was 0.76%.



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 6 - Long-term Debt (continued)

**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, 2017, debt service requirements of the variable rate debt associated with the 2001 swap agreement, 2006 swap agreement, and the 2015 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.

	Principal	Interest	Swap Interest	Net Interest	Net Principal and Interest
2018	2,795,000	8,261,125	4,072,595	12,333,720	15,128,720
2019	2,915,000	8,062,537	4,061,513	12,124,050	15,039,050
2020	3,045,000	7,843,719	4,055,769	11,899,488	14,944,488
2021	3,640,000	7,612,353	4,043,081	11,655,434	15,295,434
2022	3,915,000	7,359,408	4,030,543	11,389,951	15,304,951
2023 – 2027	23,160,000	33,727,835	19,804,323	53,532,158	76,692,158
2028 – 2032	34,585,000	27,276,363	19,254,240	46,530,603	81,115,603
2033 – 2037	45,760,000	16,304,480	19,213,875	35,518,355	81,278,355
2038 – 2042	56,945,000	6,849,084	16,678,610	23,527,694	80,472,694
2043 – 2047	68,625,000	3,297,843	9,419,275	12,717,118	81,342,118
2048 – 2049	27,760,000	288,933	1,243,774	1,532,707	29,292,707
Total	<u>\$ 273,145,000</u>	<u>\$ 126,883,680</u>	<u>\$ 105,877,598</u>	<u>\$ 232,761,278</u>	<u>\$ 505,906,278</u>

### Note 7 - Retirement Benefits

Through December 31, 1995, the University offered participation in one of two retirement plans for all qualified employees: the Michigan Public School Employees' Retirement System ("MPERS") and the Teachers Insurance and Annuities Association - College Retirement Equities Fund ("TIAA-CREF"). The MPERS plan is further discussed in Note 8.

#### Defined Contribution Plan

TIAA-CREF is a defined contribution retirement plan. Substantially all full-time employees of the University are eligible to participate in the TIAA-CREF plan. Employee benefits generally vest immediately. The University contributes a specified percentage of employee wages, as defined by the appropriate labor contract. Average contribution rates were 9.9% and 10.0% for the years ended June 30, 2017 and 2016, respectively. Total covered payroll was \$133,694,000 and \$131,316,000, for the years ended June 30, 2017 and 2016, respectively. The University contributed approximately \$13,340,000 and \$13,155,000 for the years ended June 30, 2017 and 2016, respectively. The University has no liability beyond its own contribution under the TIAA-CREF plan.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 7 - Retirement Benefits (continued)

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 \$2,083,000 and \$2,314,000 as of June 30, 2017 and 2016, respectively. Approximately \$400,000 is included in accrued payroll, taxes, and fringe benefits for the years ended June 30, 2017 and 2016. 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 1,841 members as of July 1, 2015 for healthcare, 938 members for life insurance, and currently does not require active members to contribute to the plan.

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

**Funding Policy** - The plan requirements are established and may be amended by the University's management. The University provides for the benefits under the single-employer plan on a pay as we go basis.

**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:

	2017	2016	2015
Net OPEB Obligation - Beginning of year	\$ 3,025,000	\$ 2,712,000	\$ 1,808,000
Annual required contribution	928,000	928,000	1,224,576
Interest on net OPEB obligation	175,000	175,000	-
Adjustment to the annual required contribution	<u>(215,000)</u>	<u>(215,000)</u>	<u>-</u>
Annual OPEB cost	888,000	888,000	1,224,576
Contributions made	<u>(575,000)</u>	<u>(575,000)</u>	<u>(320,576)</u>
Increase in net OPEB obligations	<u>313,000</u>	<u>313,000</u>	<u>904,000</u>
Net OPEB obligation - End of year	<u>\$ 3,338,000</u>	<u>\$ 3,025,000</u>	<u>\$ 2,712,000</u>

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 7 - Retirement Benefits (continued)

**Funded Status and Funding Progress** - As of July 1, 2015, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$9,887,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,887,000. The covered payroll (annual payroll of active employees covered by the plan) was \$118,874,000 for 2015 and the ratio of all UAAL to covered payroll was 9.0 percent for 2015.

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, 2015 actuarial valuation, the entry age actuarial method was used. The actuarial assumptions included a 6.45 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, 2017 was 25 years.

### Note 8 - 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 \$102,000 and \$57,000 for the years ended June 30, 2017 and 2016, respectively.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 8 - Contingencies and Commitments (continued)

Claims activity for the year ended June 30, 2017 is as follows:

	Liability - Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability - End of Year
Medical claims	\$ 1,128,587	\$ (26,734,611)	\$ 27,667,201	\$ 2,061,177
Property, General Liability, Errors & Omissions	658,692	1,052	(17,542)	642,202
Worker's Compensation, Unemployment Compensation and Other	291,683	(532,932)	532,932	291,683
Total	<u>\$ 2,078,962</u>	<u>\$ (27,266,491)</u>	<u>\$ 28,182,591</u>	<u>\$ 2,995,062</u>

Claims activity for the year ended June 30, 2016 is as follows:

	Liability - Beginning of Year	Claims incurred, including changes in estimates	Claims Payments	Liability - End of Year
Medical claims	\$ 1,117,820	\$ 24,736,698	\$ (24,725,931)	\$ 1,128,587
Property, General Liability, Errors & Omissions	1,402,048	(470,339)	(273,017)	658,692
Worker's Compensation, Unemployment Compensation and Other	291,682	677,479	(677,478)	291,683
Total	<u>\$ 2,811,550</u>	<u>\$ 24,943,838</u>	<u>\$ (25,676,426)</u>	<u>\$ 2,078,962</u>

The Federal Perkins Loan Program is scheduled to expire on September 30, 2017. As of June 30, 2017, the University has made \$1,759,271 in institutional capital contributions, which are reflected as part of the University's net position. Under current guidance issued by the Department of Education, at the time the University liquidates the loan portfolio and assigns the student loans to the Department of Education, the University will be forgoing its institutional capital contribution not yet received back through loan collections.

### Note 9 – Michigan Public School Employees' Retirement System

**Plan Description** – The University participates in the Michigan Public School Employees' Retirement System (MPSERS or System), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the University: all hourly employees and some salary employees hired prior to January 1, 1996. Employees hired on or after January 1, 1996 cannot participate in MPSERS, unless they previously were enrolled in the plan at the University, or one of the other six universities that are part of MPSERS.

The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 9 – Michigan Public School Employees’ Retirement System (continued)

The Michigan Public School Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909. In July 2015, ORS determined that MPSERS has two reporting units: universities and non-universities. Office of Retirement Services provided the universities a separate net pension liability. Separate pension information related to the universities reporting unit included in this plan is not available.

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

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

	Normal Pension Cost	Unfunded Portion
July 1, 2015 – September 30, 2015	4.8%	17.72%
October 1, 2015 – September 30, 2016	4.9%	20.26%
October 1, 2016 – June 30, 2017	4.3%	18.75%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions. The University’s actual contributions to the plan for the years ended June 30, 2017 and 2016 were \$5,506,014 and \$4,817,034, respectively. Contributions include \$666,577 and \$706,663 revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017 and 2016, respectively.

**Benefits Provided** – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 9 – Michigan Public School Employees' Retirement System (continued)

Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death, and are determined in the same manner as retirement benefits, but with an actuarial reduction. Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members that do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

**Net Pension Liability, Deferrals, and Pension Expense** – At June 30, 2017 and 2016, the University reported a liability of \$70.8 million and \$75.5 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the University's proportion was 12.64 percent and 13.76 percent of the universities reporting unit, respectively.

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

For the year ended June 30, 2017 and 2016, the University recognized pension (recovery) expense of (\$2,302,087) and \$4,281,481, respectively. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

**EASTERN MICHIGAN UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 9 – Michigan Public School Employees’ Retirement System (continued)**

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 113,397	\$ -	\$ 1,036,528	\$ -
Net difference between projected and actual earnings on pension plan investments	686,665	-	218,536	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	(1,187,848)	215,178	(1,394)
University contributions subsequent to the measurement date	4,061,269	-	4,544,192	-
Total	\$ 4,861,331	\$ (1,187,848)	\$ 6,014,434	\$ (1,394)

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

Year ended June 30	June 30, 2017	June 30, 2016
2017	\$ -	\$ 994,904
2018	(1,246,414)	(255,408)
2019	(171,963)	(255,408)
2020	967,820	984,760
2021	62,771	-
Total	\$ (387,786)	\$ 1,468,848

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2018).

**Actuarial Assumptions** – The total pension liability as of September 30, 2016 and September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2015 and September 30, 2014, and rolled forward. The following actuarial assumptions applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost actuarial cost method
- Assumed rate of return: 8.00 percent, net of investment and administrative expenses based on the groups
- Rate of pay increases: 3.5 percent
- Mortality basis: RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 9 – Michigan Public School Employees’ Retirement System (continued)

The actuarial assumptions used for the September 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Discount Rate** – The discount rate used to measure the total pension liability was 8.00 percent at September 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending September 30, 2017.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Investment Category</b>	<b>Plan Year</b>		<b>Plan Year</b>	
	<b>September 30, 2016</b>		<b>September 30, 2015</b>	
	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic Equity Pools	28.0%	5.9%	28.0%	5.9%
Alternate Investment Pools	18.0%	9.2%	18.0%	9.2%
International Equity Pools	16.0%	7.2%	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%	10.5%	0.9%
Real Estate & Infrastructure Pools	10.0%	4.3%	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%	2.0%	0.0%
<b>Total</b>	<b>100 %</b>		<b>100 %</b>	



# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### Note 9 – Michigan Public School Employees’ Retirement System (continued)

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

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
University's proportionate share of the net pension liability - June 30, 2017	\$ 82,761,222	\$ 70,826,130	\$ 60,510,689
University's proportionate share of the net pension liability - June 30, 2016	\$ 88,543,366	\$ 75,462,865	\$ 64,172,408

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

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. The MPSERS Board of trustees annually sets the employer contribution rate to fund the benefits on a pay as you go basis. For the plan year beginning October 1, 2016, the university monthly contribution rate was 6.98% of both member and non-member payroll wages. For the plan year beginning October 1, 2015, the university monthly contribution rate was 9.13% of both member and non-member payroll wages. For the plan year beginning October 1, 2014, the university monthly contribution rate was 10.53% of both member and non-member payroll wages. Prior to October 1, 2014 the university contributions were based on actual retiree insurance coverage and corresponding premium subsidy. The University’s monthly contribution for retiree health care benefits aggregated to \$777,164, \$1,065,511, and \$1,554,356 during the years ending June 30, 2017, 2016, and 2015, respectively. Effective July 1, 2010 all active employees enrolled in MPSERS are required to contribute 3.0% of their pay toward retiree healthcare.

Under Public Act 300 of 2012, during the period February 1, 2013 through June 30, 2013 employees could elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the retiree healthcare benefit and becoming a participant in the Personal Health Care Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 403b account. The University’s required contributions into PHF accounts were \$5,467 and \$7,815 for the fiscal years ended June 30, 2017 and 2016, respectively.

# EASTERN MICHIGAN UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 10 – Issued but not adopted accounting pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following Statement for future implementation:

In June 2015, the GASB issued Statement No 75, *Accounting and Financial reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees, and for governments that finance OPEB for employees of other governments

This OPEB standard will require the University to recognize on the face of the financial statements its Public School Employees Retirement Plan (MPERS) and its single employer postemployment benefit plan. The Statement enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The standard also changes the discount rate used to determine the liability to be based on the expected investment return of the investments held in trust as long as the investments will fund future benefit payments. The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for periods beginning after June 15, 2017.

# EASTERN MICHIGAN UNIVERSITY

## REQUIRED SUPPLEMENTAL INFORMATION

### Schedule of Pension Funding Progress

Michigan Public School Employees Retirement Plan

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
University's proportion of the Universities collective MPSERS net pension liability:			
As a percentage	12.64%	13.76%	13.56%
Amount	\$ 70,826,130	\$ 75,462,865	\$ 50,881,674
University's covered-employee payroll	\$ 10,555,451	\$ 10,741,999	\$ 11,619,235
University's proportionate share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	670.99%	702.50%	437.91%
Plan fiduciary net position as a percentage of total pension liability (Per ORS)	46.77%	47.45%	63.00%

### Schedule of Contributions

Michigan Public School Employees Retirement Plan

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 5,491,384	\$ 4,720,008	\$ 4,386,720
Contributions in relation to actuarially determined contractually required contribution	\$ 4,883,195	\$ 5,085,560	\$ 4,541,931
Contributions deficiency (excess)	\$ 608,189	\$ (365,552)	\$ (155,211)
Covered-employee payroll	\$ 9,695,965	\$ 10,396,429	\$ 11,075,064
Contributions as a percentage of covered-employee payroll covered-employee payroll Row B / Row D	50.36%	48.92%	41.01%

**EASTERN MICHIGAN UNIVERSITY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR  
ENDED JUNE 30, 2017**

**Changes of benefit terms** – There were no changes of benefit terms in 2016.

**Changes of assumptions** – There were no changes of assumptions in 2016.

**EASTERN MICHIGAN UNIVERSITY**  
**REQUIRED SUPPLEMENTAL INFORMATION**

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**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2017**

	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>	<u>Expendable Restricted Fund</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ (4,029,863)	\$ 4,725,674	\$ 16,170,190	\$ 7,510,136
Accounts receivable - Net	4,212,280	1,191,776	2,601,942	5,896,573
Appropriation receivable	13,380,692	-	-	-
Inventories	105,881	32	291,874	15,410
Deposits and prepaid expenses	900,651	2,127	819,612	8,671
Accrued interest receivable	27,982	-	-	-
Total current assets	<u>14,597,623</u>	<u>5,919,609</u>	<u>19,883,618</u>	<u>13,430,790</u>
Noncurrent assets:				
Cash and cash equivalents - restricted	-	-	-	-
Student loans receivable - Net	-	-	-	-
Long-term investments - unrestricted	23,573,839	-	-	89,077
Long-term investments - restricted	-	-	-	-
Long-term investments - real property	-	-	-	-
Capital assets - Net	-	-	-	-
Fair value of derivative instruments	-	-	-	-
Total noncurrent assets	<u>23,573,839</u>	<u>-</u>	<u>-</u>	<u>89,077</u>
Total assets	<u>\$ 38,171,462</u>	<u>\$ 5,919,609</u>	<u>\$ 19,883,618</u>	<u>\$ 13,519,867</u>
<b>DEFERRED OUTFLOWS</b>	<u>4,861,331</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -
Current portion of interest rate swap financing	-	-	-	-
Accounts payable and accrued liabilities	2,914,756	67,163	3,863,726	4,575,185
Accrued payroll	9,861,968	-	-	-
Payroll taxes and accrued fringe benefits	6,888,617	-	754,477	2,336
Unearned fees and deposits	5,150,591	7,635	9,454,056	1,126,442
Insurance and other claims payable	2,456,964	-	468,228	-
Total current liabilities	<u>27,272,896</u>	<u>74,798</u>	<u>14,540,487</u>	<u>5,703,963</u>
Noncurrent liabilities:				
Accrued compensated absences	1,585,024	-	97,744	-
Long-term debt	-	-	-	-
Interest rate swap financing	-	-	-	-
Fair value of derivative instruments	-	-	-	-
Net other postemployment benefit obligations	3,338,000	-	-	-
Pension obligations	70,826,130	-	-	-
Federal perkins	-	-	-	-
Total noncurrent liabilities	<u>75,749,154</u>	<u>-</u>	<u>97,744</u>	<u>-</u>
Total liabilities	<u>\$ 103,022,050</u>	<u>\$ 74,798</u>	<u>\$ 14,638,231</u>	<u>\$ 5,703,963</u>
<b>DEFERRED INFLOWS</b>	<u>1,673,716</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	\$ -	\$ -	\$ -
Restricted-University development and Perkins loans	-	-	-	7,815,904
Unrestricted (deficit)	-	-	-	-
Designated	-	5,844,811	5,245,387	-
Undesignated (deficit)	(61,662,973)	-	-	-
Total net position	<u>\$ (61,662,973)</u>	<u>\$ 5,844,811</u>	<u>\$ 5,245,387</u>	<u>\$ 7,815,904</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2017**

	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>	<u>Consolidated Total</u>
<b>A S S E T S</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ 1,086,964	\$ (8,884,728)	\$ 570,472	\$ 17,148,845
Accounts receivable - Net	12,820	886,626	-	14,802,017
Appropriation receivable	-	-	-	13,380,692
Inventories	-	-	-	413,197
Deposits and prepaid expenses	-	512,454	-	2,243,515
Accrued interest receivable	380	-	-	28,362
Total current assets	<u>1,100,164</u>	<u>(7,485,648)</u>	<u>570,472</u>	<u>48,016,628</u>
Noncurrent assets:				
Cash and cash equivalents - restricted	-	14,100,000	-	14,100,000
Student loans receivable - Net	7,236,788	-	-	7,236,788
Long-term investments - unrestricted	-	-	-	23,662,916
Long-term investments - restricted	-	6,808,423	-	6,808,423
Long-term investments - real property	-	3,360,000	-	3,360,000
Capital assets - Net	-	486,189,462	-	486,189,462
Fair value of derivative instruments	-	-	-	-
Total noncurrent assets	<u>7,236,788</u>	<u>510,457,885</u>	<u>-</u>	<u>541,357,589</u>
Total assets	<u>\$ 8,336,952</u>	<u>\$ 502,972,237</u>	<u>\$ 570,472</u>	<u>\$ 589,374,217</u>
<b>DEFERRED OUTFLOWS</b>	<u>-</u>	<u>3,035,452</u>	<u>-</u>	<u>7,896,783</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 2,795,000	\$ -	\$ 2,795,000
Current portion of interest rate swap financing	-	2,834,911	-	2,834,911
Accounts payable and accrued liabilities	16,903	13,502,639	18,174	24,958,546
Accrued payroll	-	-	-	9,861,968
Payroll taxes and accrued fringe benefits	-	-	-	7,645,430
Unearned fees and deposits	-	970,918	552,298	17,261,940
Insurance and other claims payable	-	69,870	-	2,995,062
Total current liabilities	<u>16,903</u>	<u>20,173,338</u>	<u>570,472</u>	<u>68,352,857</u>
Noncurrent liabilities:				
Accrued compensated absences	-	-	-	1,682,768
Long-term debt	-	270,350,000	-	270,350,000
Interest rate swap financing	-	33,747,157	-	33,747,157
Fair value of derivative instruments	-	1,918,816	-	1,918,816
Net other postemployment benefit obligations	-	-	-	3,338,000
Pension obligations	-	-	-	70,826,130
Federal perkins	6,560,780	-	-	6,560,780
Total noncurrent liabilities	<u>6,560,780</u>	<u>306,015,973</u>	<u>-</u>	<u>388,423,651</u>
Total liabilities	<u>\$ 6,577,683</u>	<u>\$ 326,189,311</u>	<u>\$ 570,472</u>	<u>\$ 456,776,508</u>
<b>DEFERRED INFLOWS</b>	<u>-</u>	<u>4,599,505</u>	<u>-</u>	<u>6,273,221</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	\$ 183,147,948	\$ -	\$ 183,147,948
Restricted-University development and Perkins loans	1,759,269	-	-	9,575,173
Unrestricted (deficit)	-	-	-	11,090,198
Designated	-	-	-	11,090,198
Undesignated (deficit)	-	(7,929,075)	-	(69,592,048)
Total net position	<u>\$ 1,759,269</u>	<u>\$ 175,218,873</u>	<u>\$ -</u>	<u>\$ 134,221,271</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2017**

	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ 226,356,953	\$ 1,079,169	\$ -	\$ 780,253
Scholarship allowances	-	-	-	-
Net student tuition and fees	<u>226,356,953</u>	<u>1,079,169</u>	<u>-</u>	<u>780,253</u>
Federal grants and contracts	-	-	-	7,069,881
Federal financial aid	-	-	-	1,890,539
State grants and contracts	-	-	-	929,434
State financial aid	-	-	-	1,523,156
Nongovernmental grants and contracts	(550)	-	-	849,864
Departmental activities	2,996,478	5,129,660	-	699,504
Auxiliary activities - Net	-	-	54,790,742	-
Indirect cost recovery (deduction)	496,708	571,921	-	(1,068,629)
Other	2,540,727	98,977	-	34,852
Total operating revenues	<u>232,390,316</u>	<u>6,879,727</u>	<u>54,790,742</u>	<u>12,708,854</u>
<b>OPERATING EXPENSES</b>				
Instruction	120,806,197	471,650	-	77,236
Research	3,412,366	80,598	-	1,592,326
Public service	3,032,832	741,438	-	9,055,416
Academic support	32,490,401	1,138,177	-	11,071
Student services	14,360,973	4,248,542	-	35,563
Institutional support	31,243,660	371,863	-	80,267
Scholarships and fellowships	53,827,108	28,287	-	37,675,809
Operation and maintenance of plant	26,907,930	126,350	-	-
Auxiliary activities expenses - Net	-	-	59,107,332	-
Depreciation	-	-	-	-
Capital additions - Net	1,083,889	34,619	16,535	68,101
Other	-	-	-	-
Total operating expenses	<u>287,165,356</u>	<u>7,241,524</u>	<u>59,123,867</u>	<u>48,595,789</u>
Operating income (loss)	<u>(54,775,040)</u>	<u>(361,797)</u>	<u>(4,333,125)</u>	<u>(35,886,935)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	74,150,361	-	-	-
Gifts	38,426	(1,916)	-	5,917,697
Investment income	2,084,282	-	-	1,283
Interest expense	-	-	-	-
Interest ARRA subsidy	-	-	-	-
Pell grants	-	-	-	29,245,405
Other	4,245	-	3	503,690
Net nonoperating revenues (expenses) before transfers and capital items	<u>76,277,314</u>	<u>(1,916)</u>	<u>3</u>	<u>35,668,075</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	(3,158,588)	-	(5,289,264)	-
Matching funds	(1,134,011)	(99,161)	(2,326)	1,232,628
Non-mandatory:				
Other	<u>(29,717,159)</u>	<u>285,636</u>	<u>13,381,096</u>	<u>(256,715)</u>
Total transfers	<u>(34,009,758)</u>	<u>186,475</u>	<u>8,089,506</u>	<u>975,913</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	-	-	-
Total net nonoperating and other revenues (expenses)	<u>42,267,556</u>	<u>184,559</u>	<u>8,089,509</u>	<u>36,643,988</u>
(Decrease) Increase in net position	<u>(12,507,484)</u>	<u>(177,238)</u>	<u>3,756,384</u>	<u>757,053</u>
<b>NET POSITION, Beginning of year</b>	<u>(49,155,489)</u>	<u>6,022,049</u>	<u>1,489,003</u>	<u>7,058,851</u>
<b>NET POSITION, End of year</b>	<u>\$ (61,662,973)</u>	<u>\$ 5,844,811</u>	<u>\$ 5,245,387</u>	<u>\$ 7,815,904</u>



**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2017**

	Student Loan Fund	Plant Fund	Eliminations	Consolidated
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ -	\$ -	\$ -	\$ 228,216,375
Scholarship allowances	-	-	(54,927,845)	(54,927,845)
Net student tuition and fees	-	-	(54,927,845)	173,288,530
Federal grants and contracts	86,292	-	-	7,156,173
Federal financial aid	28,378	-	-	1,918,917
State grants and contracts	-	-	-	929,434
State financial aid	-	-	-	1,523,156
Nongovernmental grants and contracts	-	-	-	849,314
Departmental activities	26	1,236,614	-	10,062,282
Auxiliary activities - Net	-	-	(8,930,107)	45,860,635
Indirect cost recovery (deduction)	-	-	-	-
Other	41,789	-	-	2,716,345
Total operating revenues	<u>156,485</u>	<u>1,236,614</u>	<u>(63,857,952)</u>	<u>244,304,786</u>
<b>OPERATING EXPENSES</b>				
Instruction	-	-	-	121,355,083
Research	-	-	-	5,085,290
Public service	-	-	-	12,829,686
Academic support	-	-	-	33,639,649
Student services	-	-	-	18,645,078
Institutional support	-	-	-	31,695,790
Scholarships and fellowships	-	-	(54,927,845)	36,603,359
Operation and maintenance of plant	-	1,154,566	-	28,188,846
Auxiliary activities expenses - Net	-	-	(8,930,107)	50,177,225
Depreciation	-	14,796,547	-	14,796,547
Capital additions - Net	-	(1,203,144)	-	-
Other	283,715	-	-	283,715
Total operating expenses	<u>283,715</u>	<u>14,747,969</u>	<u>(63,857,952)</u>	<u>353,300,267</u>
Operating income (loss)	<u>(127,230)</u>	<u>(13,511,355)</u>	<u>-</u>	<u>(108,995,482)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	-	-	-	74,150,361
Gifts	-	205,000	-	6,159,207
Investment income	176,687	13,724,512	-	15,986,764
Interest expense	-	(10,564,088)	-	(10,564,088)
Interest ARRA subsidy	-	1,659,851	-	1,659,851
Pell grants	-	-	-	29,245,405
Other	-	-	4,431	512,369
Net nonoperating revenues (expenses) before transfers and capital items	<u>176,687</u>	<u>5,025,275</u>	<u>4,431</u>	<u>117,149,869</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	-	8,447,852	-	-
Matching funds	3,154	-	(284)	-
Non-mandatory:				
Other	-	16,311,289	(4,147)	-
Total transfers	<u>3,154</u>	<u>24,759,141</u>	<u>(4,431)</u>	<u>-</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	1,544,320	-	1,544,320
Total net nonoperating and other revenues (expenses)	<u>179,841</u>	<u>31,328,736</u>	<u>-</u>	<u>118,694,189</u>
(Decrease) Increase in net position	52,611	17,817,381	-	9,698,707
<b>NET POSITION, Beginning of year</b>	<u>1,706,658</u>	<u>157,401,492</u>	<u>-</u>	<u>124,522,564</u>
<b>NET POSITION, End of year</b>	<u>\$ 1,759,269</u>	<u>\$ 175,218,873</u>	<u>\$ -</u>	<u>\$ 134,221,271</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2016**

	<u>General Fund</u>	<u>Designated Fund</u>	<u>Auxiliary Activities Fund</u>	<u>Expendable Restricted Fund</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ 14,405,887	\$ 5,703,906	\$ 12,408,932	\$ 6,255,961
Accounts receivable - Net	5,520,434	538,468	2,784,203	6,593,416
Appropriation receivable	13,051,366	-	-	-
Inventories	659,069	-	704,442	-
Deposits and prepaid expenses	702,920	947	217,300	4,932
Accrued interest receivable	11,224	-	-	-
Total current assets	<u>34,350,900</u>	<u>6,243,321</u>	<u>16,114,877</u>	<u>12,854,309</u>
Noncurrent assets:				
Cash and cash equivalents - restricted	-	-	-	-
Student loans receivable - Net	-	-	-	-
Long-term investments - unrestricted	17,763,475	-	-	91,554
Long-term investments - restricted	-	-	-	-
Long-term investments - real estate	-	-	-	-
Capital assets - Net	-	-	-	-
Fair value of derivative instruments	-	-	-	-
Total noncurrent assets	<u>17,763,475</u>	<u>-</u>	<u>-</u>	<u>91,554</u>
Total assets	<u>\$ 52,114,375</u>	<u>\$ 6,243,321</u>	<u>\$ 16,114,877</u>	<u>\$ 12,945,863</u>
<b>DEFERRED OUTFLOWS</b>	<u>6,014,434</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -
Current portion of interest rate swap financing	-	-	-	-
Accounts payable and accrued liabilities	2,271,100	145,457	3,338,198	4,546,890
Accrued payroll	10,306,229	-	-	-
Payroll taxes and accrued fringe benefits	7,172,406	-	477,613	-
Unearned fees and deposits	5,156,844	75,815	10,284,885	1,340,122
Insurance and other claims payable	1,642,175	-	366,917	-
Total current liabilities	<u>26,548,754</u>	<u>221,272</u>	<u>14,467,613</u>	<u>5,887,012</u>
Noncurrent liabilities:				
Accrued compensated absences	1,755,508	-	158,261	-
Long-term debt	-	-	-	-
Interest rate swap financing	-	-	-	-
Fair value of derivative instruments	-	-	-	-
Federal perkins	-	-	-	-
Pension Obligations	75,462,865	-	-	-
Net other postemployment benefit obligations	3,025,000	-	-	-
Total noncurrent liabilities	<u>80,243,373</u>	<u>-</u>	<u>158,261</u>	<u>-</u>
Total liabilities	<u>\$ 106,792,127</u>	<u>\$ 221,272</u>	<u>\$ 14,625,874</u>	<u>\$ 5,887,012</u>
<b>DEFERRED INFLOWS</b>	<u>492,171</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	\$ -	\$ -	\$ -
Restricted-University development and Perkins loans	-	-	-	7,058,851
Unrestricted				
Designated	-	6,022,049	1,489,003	-
Undesignated	(49,155,489)	-	-	-
Total net position	<u>\$ (49,155,489)</u>	<u>\$ 6,022,049</u>	<u>\$ 1,489,003</u>	<u>\$ 7,058,851</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF NET POSITION**  
**BY FUND GROUP**  
**as of June 30, 2016**

	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Agency Fund</u>	<u>Consolidated Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents - unrestricted	\$ 490,452	\$ (22,693,523)	\$ 692,683	\$ 17,264,298
Accounts receivable - Net	5,128	24,323	-	15,465,972
Appropriation receivable	-	-	-	13,051,366
Inventories	-	-	-	1,363,511
Deposits and prepaid expenses	-	415,728	-	1,341,827
Accrued interest receivable	379	-	-	11,603
Total current assets	<u>495,959</u>	<u>(22,253,472)</u>	<u>692,683</u>	<u>48,498,577</u>
Noncurrent assets:				
Cash and cash equivalents - restricted	-	24,500,000	-	24,500,000
Student loans receivable - Net	7,896,098	-	-	7,896,098
Long-term investments - unrestricted	-	-	-	17,855,029
Long-term investments - restricted	-	6,377,676	-	6,377,676
Long-term investments - real estate	-	3,360,000	-	3,360,000
Capital assets - Net	-	462,316,783	-	462,316,783
Fair value of derivative instruments	-	-	-	-
Total noncurrent assets	<u>7,896,098</u>	<u>496,554,459</u>	<u>-</u>	<u>522,305,586</u>
Total assets	<u>\$ 8,392,057</u>	<u>\$ 474,300,987</u>	<u>\$ 692,683</u>	<u>\$ 570,804,163</u>
<b>DEFERRED OUTFLOWS</b>	<u>-</u>	<u>4,122,166</u>	<u>-</u>	<u>10,136,600</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 2,680,000	\$ -	\$ 2,680,000
Current portion of interest rate swap financing	-	2,827,539	-	2,827,539
Accounts payable and accrued liabilities	38,327	8,250,272	8,024	18,598,268
Accrued payroll	-	-	-	10,306,229
Payroll taxes and accrued fringe benefits	-	-	-	7,650,019
Unearned fees and deposits	-	-	684,659	17,542,325
Insurance and other claims payable	-	69,870	-	2,078,962
Total current liabilities	<u>38,327</u>	<u>13,827,681</u>	<u>692,683</u>	<u>61,683,342</u>
Noncurrent liabilities:				
Accrued compensated absences	-	-	-	1,913,769
Long-term debt	-	249,085,000	-	249,085,000
Interest rate swap financing	-	31,822,490	-	31,822,490
Fair value of derivative instruments	-	21,261,077	-	21,261,077
Federal perkins	6,647,072	-	-	6,647,072
Pension Obligations	-	-	-	75,462,865
Net other postemployment benefit obligations	-	-	-	3,025,000
Total noncurrent liabilities	<u>6,647,072</u>	<u>302,168,567</u>	<u>-</u>	<u>389,217,273</u>
Total liabilities	<u>\$ 6,685,399</u>	<u>\$ 315,996,248</u>	<u>\$ 692,683</u>	<u>\$ 450,900,615</u>
<b>DEFERRED INFLOWS</b>	<u>-</u>	<u>5,025,413</u>	<u>-</u>	<u>5,517,584</u>
<b>NET POSITION</b>				
Net Investment in capital assets	\$ -	163,475,106	\$ -	\$ 163,475,106
Restricted-University development and Perkins loans	1,706,658	-	-	8,765,509
Unrestricted	-	-	-	-
Designated	-	-	-	7,511,052
Undesignated	-	(6,073,614)	-	(55,229,103)
Total net position	<u>\$ 1,706,658</u>	<u>\$ 157,401,492</u>	<u>\$ -</u>	<u>\$ 124,522,564</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2016**

	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ 227,546,703	\$ 974,942	\$ -	\$ 756,473
Scholarship allowances	-	-	-	-
Net student tuition and fees	227,546,703	974,942	-	756,473
Federal grants and contracts	-	-	-	6,880,109
Federal financial aid	-	-	-	1,686,878
State grants and contracts	-	-	-	1,733,024
State financial aid	-	-	-	852,690
Nongovernmental grants and contracts	-	-	-	907,429
Departmental activities	1,191,910	1,902,105	-	-
Auxiliary activities revenue, net	-	-	52,846,155	-
Indirect cost recovery (deduction)	443,839	494,641	-	(938,480)
Other	1,984,931	-	-	450,571
Total operating revenues	<u>231,167,383</u>	<u>3,371,688</u>	<u>52,846,155</u>	<u>12,328,694</u>
<b>OPERATING EXPENSES</b>				
Instruction	120,120,943	638,707	-	707
Research	2,156,570	66,032	-	1,646,859
Public service	3,334,852	760,143	-	8,842,731
Academic support	33,299,438	999,118	-	8,585
Student services	14,165,498	895,557	-	51,518
Institutional support	30,872,629	550,902	-	33,472
Scholarships and fellowships	52,826,371	24,244	-	39,267,621
Operation and maintenance of plant	24,994,984	70,275	-	-
Auxiliary activities expenses, net	-	-	56,125,844	-
Depreciation	-	-	-	-
Capital additions, net	1,047,002	29,420	37,180	48,999
Other	4,281,485	-	-	-
Total operating expenses	<u>287,099,772</u>	<u>4,034,398</u>	<u>56,163,024</u>	<u>49,900,492</u>
Operating income (loss)	<u>(55,932,389)</u>	<u>(662,710)</u>	<u>(3,316,869)</u>	<u>(37,571,798)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	71,887,985	-	-	-
Gifts	-	2,506	-	4,630,002
Investment income	74,209	-	-	7,307
Change in value of derivative instruments	-	-	-	-
Interest expense	-	-	-	-
Interest ARRA subsidy	-	-	-	-
Pell grants	-	-	-	31,622,547
Other	-	-	-	557,288
Net nonoperating revenues (expenses) before transfers and capital items	<u>71,962,194</u>	<u>2,506</u>	<u>-</u>	<u>36,817,144</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	(6,242,422)	-	(2,225,781)	-
Matching funds	(586,884)	(21,288)	-	970,489
Non-mandatory:				
Other	(11,067,225)	332,622	(1,442,893)	(873,800)
Total transfers	<u>(17,896,531)</u>	<u>311,334</u>	<u>(3,668,674)</u>	<u>96,689</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	-	-	-
Total net nonoperating and other revenues (expenses)	<u>54,065,663</u>	<u>313,840</u>	<u>(3,668,674)</u>	<u>36,913,833</u>
(Decrease) Increase in net position	<u>(1,866,726)</u>	<u>(348,870)</u>	<u>(6,985,543)</u>	<u>(657,965)</u>
<b>NET POSITION, Beginning of year</b>	<u>(47,288,763)</u>	<u>6,370,919</u>	<u>8,474,546</u>	<u>7,716,816</u>
<b>NET POSITION, End of year</b>	<u>\$ (49,155,489)</u>	<u>\$ 6,022,049</u>	<u>\$ 1,489,003</u>	<u>\$ 7,058,851</u>

**EASTERN MICHIGAN UNIVERSITY**  
**SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**BY FUND GROUP**  
**For June 30, 2016**

	<u>Student Loan Fund</u>	<u>Plant Fund</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ -	\$ -	\$ -	\$ 229,278,118
Scholarship allowances	-	-	(50,051,522)	(50,051,522)
Net student tuition and fees	-	-	(50,051,522)	179,226,596
Federal grants and contracts	368,833	-	-	7,248,942
Federal financial aid	-	-	-	1,686,878
State grants and contracts	-	-	-	1,733,024
State financial aid	-	-	-	852,690
Nongovernmental grants and contracts	-	-	-	907,429
Departmental activities	-	-	-	3,094,015
Auxiliary activities revenue, net	-	-	(7,846,930)	44,999,225
Indirect cost recovery (deduction)	-	-	-	-
Other	49,166	60,850	-	2,545,518
Total operating revenues	<u>417,999</u>	<u>60,850</u>	<u>(57,898,452)</u>	<u>242,294,317</u>
<b>OPERATING EXPENSES</b>				
Instruction	-	-	-	120,760,357
Research	-	-	-	3,869,461
Public service	-	-	-	12,937,726
Academic support	-	-	-	34,307,141
Student services	-	-	-	15,112,573
Institutional support	-	-	-	31,457,003
Scholarships and fellowships	-	-	(50,051,522)	42,066,714
Operation and maintenance of plant	-	(566,540)	-	24,498,719
Auxiliary activities expenses, net	-	-	(7,846,930)	48,278,914
Depreciation	-	14,841,297	-	14,841,297
Capital additions, net	-	(1,162,601)	-	-
Other	492,145	-	-	4,773,630
Total operating expenses	<u>492,145</u>	<u>13,112,156</u>	<u>(57,898,452)</u>	<u>352,903,535</u>
Operating income (loss)	<u>(74,146)</u>	<u>(13,051,306)</u>	<u>-</u>	<u>(110,609,218)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	-	-	-	71,887,985
Gifts	-	-	-	4,632,508
Investment income	187,846	(21,291,178)	-	(21,021,816)
Change in value of derivative instruments	-	-	-	-
Interest expense	-	(9,043,753)	-	(9,043,753)
Interest ARRA subsidy	-	1,700,678	-	1,700,678
Pell grants	-	-	-	31,622,547
Other	-	-	(6,946)	550,342
Net nonoperating revenues (expenses) before transfers and capital items	<u>187,846</u>	<u>(28,634,253)</u>	<u>(6,946)</u>	<u>80,328,491</u>
<b>TRANSFERS IN (OUT)</b>				
Mandatory:				
Funds for debt service	-	8,468,203	-	-
Matching funds	(362,317)	-	-	-
Non-mandatory:				
Other	-	13,044,350	6,946	-
Total transfers	<u>(362,317)</u>	<u>21,512,553</u>	<u>6,946</u>	<u>-</u>
<b>CAPITAL CONTRIBUTIONS</b>				
Capital grants and gifts	-	76,813	-	76,813
<b>Total net nonoperating and other revenues (expenses)</b>				
	<u>(174,471)</u>	<u>(7,044,887)</u>	<u>-</u>	<u>80,405,304</u>
<b>(Decrease) Increase in net position</b>				
	<u>(248,617)</u>	<u>(20,096,193)</u>	<u>-</u>	<u>(30,203,914)</u>
<b>NET POSITION, Beginning of year</b>				
	<u>1,955,275</u>	<u>177,497,685</u>	<u>-</u>	<u>154,726,478</u>
<b>NET POSITION, End of year</b>	<u>\$ 1,706,658</u>	<u>\$ 157,401,492</u>	<u>\$ -</u>	<u>\$ 124,522,564</u>

## University Notes to Supplemental Schedules

### **Basis of Presentation:**

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

#### Current Fund Groupings:

General Fund is used to account for general operating activities.

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

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

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

#### Noncurrent Fund Groupings:

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

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

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

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

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