

Western Michigan University

General Purpose Financial Report

June 30, 2015

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Independent Auditor's Report

To the Board of Trustees
Western Michigan University

Report on the Financial Statements

We have audited the accompanying financial statements of Western Michigan University, a component unit of the State of Michigan, and its aggregate discretely presented component units (the "University") as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise Western Michigan University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The discretely presented component units were 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.

To the Board of Trustees
Western Michigan University

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Michigan University and its aggregate discretely presented component units as of June 30, 2015 and 2014, and the changes in its financial position and, where applicable, cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the University adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Adopting these Statements resulted in significant changes to the defined benefit related footnote disclosures as well as the required supplemental information schedules. Our opinion is not modified with respect to this matter.

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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 on our consideration of Western 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 Western Michigan University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

Western Michigan University

Management's Discussion and Analysis

The following discussion and analysis of Western Michigan University's (the "University") financial statements provides an overview of the University's financial activities for the year ended June 30, 2015. Management has prepared the financial statements and the related disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

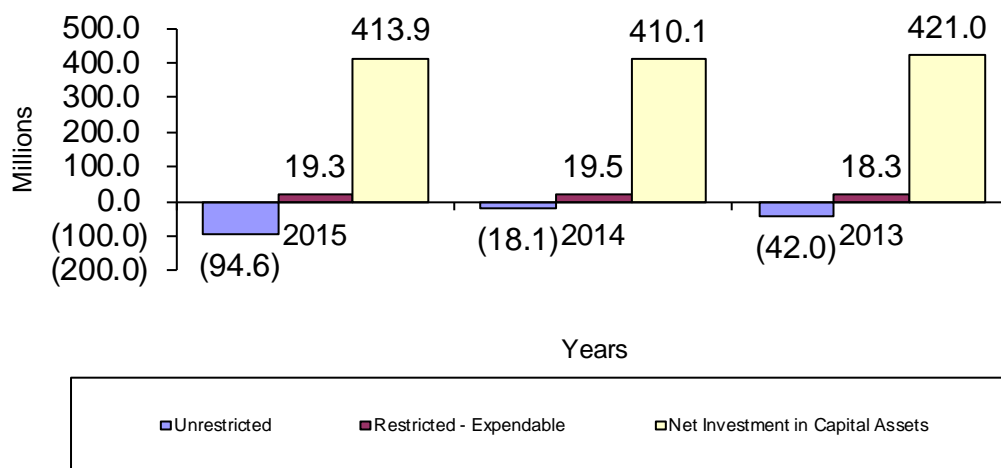
The Carnegie Foundation for the Advancement of Teaching places Western Michigan University among the 74 public institutions in the nation designated as research universities with high research activity. *U.S. News & World Report's* annual ranking of American colleges and universities includes Western Michigan University as one of the nation's top 100 public universities.

Financial Highlights

The University's financial position remained strong at June 30, 2015, with assets and deferred outflows of \$1.139 billion and liabilities and deferred inflows of \$800.2 million.

The University invests its working capital to maximize total return, with an appropriate level of risk. The University's holdings are invested in short-, intermediate-, and long-term investment pool accounts. The investment strategy governing the endowment assets seeks to maximize total return over the long run.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2015, 2014, and 2013:



Western Michigan University

Management's Discussion and Analysis (Continued)

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

The University adopted a new Governmental Accounting Standards Board (GASB) Statement No. 68 which requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. In accordance with the statement, the University has reported a change in accounting principle adjustment to unrestricted net position of \$79,593,930, which is the net of the net pension liability and related deferred outflows as of July 1, 2014.

The University's financial statements were prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 61). These criteria include significant operational or financial relationships. Based on the application of the criteria, the University has four component units. The Western Michigan University Foundation, Paper Technology Foundation, Inc., Western Michigan University Research Foundation (collectively, the "Foundations"), and Western Michigan University School of Medicine's financial statements are discretely presented as part of the University's reporting entity. The component units' financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB).

The Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position

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

These financial 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 revenue and expenses are taken into account regardless of when cash is received or paid.

Western Michigan University

Management's Discussion and Analysis (Continued)

The following is a summary of the major components of the net position and operating results of the University for the years ended June 30, 2015, 2014, and 2013:

Net Position as of June 30 (in millions)

	2015	2014	2013
Assets			
Current assets	\$ 95.9	\$ 86.3	\$ 79.4
Noncurrent assets:			
Capital assets - Net of depreciation	748.3	712.6	727.8
Other	284.9	294.3	139.6
Total assets	1,129.1	1,093.2	946.8
Deferred Outflows	9.7	-	-
Liabilities			
Current liabilities	88.1	101.0	89.4
Long-term liabilities	710.8	579.3	460.1
Total liabilities	798.9	680.3	549.5
Deferred Inflows	1.3	1.4	-
Net Position			
Net investment in capital assets	413.9	410.1	421.0
Restricted	19.3	19.5	18.3
Unrestricted	(94.6)	(18.1)	(42.0)
Total net position	<u>\$ 338.6</u>	<u>\$ 411.5</u>	<u>\$ 397.3</u>

Western Michigan University

Management's Discussion and Analysis (Continued)

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

	2015	2014	2013
Operating Revenue			
Tuition and fees - Net	\$ 231.6	\$ 227.0	\$ 223.2
Grants and contracts	24.4	23.5	24.3
Auxiliary activities - Net	84.5	85.1	94.9
Other	41.9	40.1	42.7
Total operating revenue	382.4	375.7	385.1
Operating Expenses			
Instruction	168.9	169.2	158.9
Departmental research	17.0	19.0	19.5
Public service	12.2	11.7	11.2
Academic support	56.6	50.9	50.6
Student services	27.9	27.2	25.8
Institutional support	43.9	41.0	47.5
Operations and maintenance of plant	37.8	37.4	36.3
Scholarships and fellowships	31.6	32.8	33.6
Auxiliary activities	74.8	73.7	86.0
Depreciation	27.4	26.4	26.7
Other expenditures	4.0	6.9	14.9
Total operating expenses	502.1	496.2	511.0
Net Operating Loss	(119.7)	(120.5)	(125.9)
Nonoperating Revenue (Expense)			
State appropriations	102.7	97.3	95.5
Gifts	31.3	43.3	43.4
Other net nonoperating expense	(10.0)	(13.5)	(5.6)
Total nonoperating revenue	124.0	127.1	133.3
Other			
Capital appropriations	-	0.3	12.8
Capital grants, contracts, and other	2.4	7.3	2.0
Total other	2.4	7.6	14.8
Increase in Net Position	6.7	14.2	22.2
Net Position - Beginning of year	411.5	397.3	375.1
Adjustment for Change in Accounting Principle	(79.6)	-	-
Net Position - End of year	<u>\$ 338.6</u>	<u>\$ 411.5</u>	<u>\$ 397.3</u>

Western Michigan University

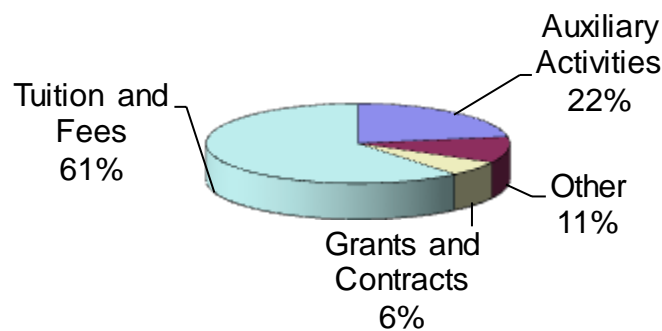
Management's Discussion and Analysis (Continued)

Operating Revenue

Operating revenue includes all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and dining operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Student tuition and fees revenue increased as a result of the board of trustees raising the rates by 3.19 percent for resident undergraduate students. For resident undergraduate students enrolled in 30 credit hours during an academic year, this increase equates to an additional \$330 of tuition and fees. Room and meal plan rates increased 2.95 percent. This equates to an additional \$250 for the academic year for a 15-meal plan. Student tuition and fees revenue increased in fiscal year 2014 compared to fiscal year 2013 as a result of the board of trustees raising the rates by 3.75 percent for resident undergraduate students.

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



Operating Expenses

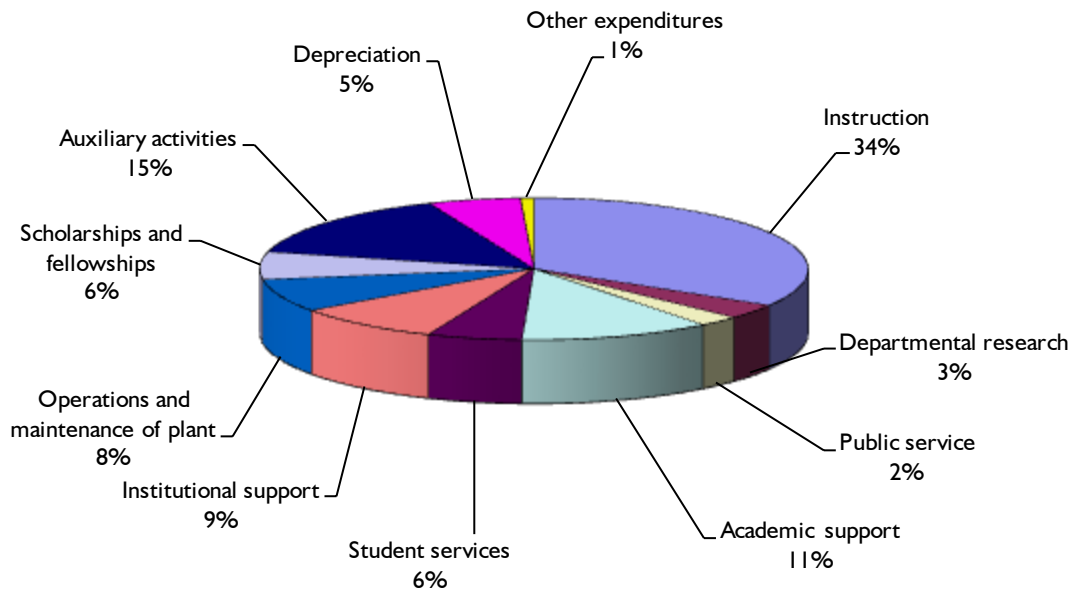
Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. Operating expenses were impacted by increases in the costs of compensation and academic programming. Other expenditures decreased \$2.9 million from fiscal year 2014. This decrease was primarily due to a decrease in project expenses that were not capitalized of \$2.1 million. Academic support increased \$5.7 million in fiscal year 2015 due to compensation and program support.

Western Michigan University

Management's Discussion and Analysis (Continued)

The University is committed to providing financial support to students and is currently developing a strategic plan to award more dollars to students in a more efficient and strategic way. The University has long sponsored its prestigious Medallion Scholarship program, which attracts some of the brightest and most promising students. The University also offers several other merit-based awards including the Presidential and Provost Scholarships.

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



Western Michigan University

Management's Discussion and Analysis (Continued)

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses are primarily nonexchange in nature. They would consist primarily of state appropriations and investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Nonoperating revenue and expenses were significantly impacted by the following factors:

- The state appropriation revenue increased \$5.4 million or 5.6 percent from fiscal year 2014. The state appropriation for fiscal year 2014 increased \$1.8 million or 1.9 percent and for fiscal year 2013 it increased \$2.3 million.
- Investment income decreased from the prior year by approximately \$15.3 million. This is a result of an increase in the realized gain from the prior year in the amount of \$.9 million, and a change from an unrealized gain in the prior year in the amount of \$11.5 million, to an unrealized loss in the current year in the amount of \$4.7 million.
- Other nonoperating expense for 2015 includes transfers of \$17.5 million in gifts to Western Michigan University for the benefit of the Western Michigan University School of Medicine (WMed). Gift transfers during fiscal year 2015 include \$7.6 million in gifts transferred directly to WMed. In addition, a total of \$9.9 million was transferred to the Western Michigan University Foundation WMed quasi-endowment. The WMed quasi-endowment was established for gifts to Western Michigan University for the benefit of WMed.
- Upon receiving a donated building and recognizing \$20.1 million in gift income during 2012, the University in turn leased portions of the building to WMed resulting in losses on the capital lease transaction of \$3.9 million in 2015 and \$15.3 million in 2014. During 2015, the University agreed to lease the entire building to WMed.

Other

Other activity consists of items that are typically nonrecurring, extraordinary, or unusual to the University. An example would be capital appropriations from the state or federal government and transfers from related entities.

Western Michigan University

Management's Discussion and Analysis (Continued)

Other activity was significantly impacted by the following:

Capital grants, contracts, and other revenue totaled \$2.4 million in 2015, \$7.3 million in 2014, and \$2.0 million in 2013. During fiscal year 2014, the University received a donation for a new archives facility in the amount of \$4.2 million.

State capital appropriations for the new College of Education and Human Development facility were \$35,000 in 2015, \$322,000 in 2014, and \$12.8 million in 2013.

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 an entity during a period. The statement of cash flows also helps users assess the following:

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

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

	2015	2014	2013
Cash (Used in) Provided by			
Operating activities	\$ (82.3)	\$ (81.8)	\$ (85.2)
Noncapital financing activities	145.7	144.9	134.5
Capital and related financing activities	(68.2)	(40.3)	(47.7)
Investing activities	11.9	(13.7)	0.5
Net Increase in Cash	7.1	9.1	2.1
Cash - Beginning of year	44.7	35.6	33.5
Cash - End of year	<u>\$ 51.8</u>	<u>\$ 44.7</u>	<u>\$ 35.6</u>

Western Michigan University

Management's Discussion and Analysis (Continued)

The most significant components of cash flows provided from operating activities are tuition and fees, auxiliary activities, and grants and contracts. The most significant components of cash flows used in operations are payments to suppliers and employees. Net cash used in operating activities was \$82.3 million. This is compared to net cash used in operating activities in the amounts of \$81.8 million and \$85.2 million for the years ended June 30, 2014 and 2013, respectively. To offset the \$82.3 million operating use, the net cash provided from noncapital financing activities, which consisted primarily of state appropriations, was \$145.7 million. Net cash provided by noncapital financing activities was \$144.9 million and \$134.5 million for the years ended June 30, 2014 and 2013, respectively. Cash used in capital and related financing activities totaled \$68.2 million, primarily the result of capital additions during the year in the amount of \$67.1 million, interest paid on capital debt in the amount of \$17.9 million, and net cash proceeds from debt instruments and capital gifts of \$19.6 million. Cash provided by investing activities was \$11.9 million. This is compared to cash used in investing activities of \$13.7 million and provided by \$0.5 million for the years ended June 30, 2014 and 2013, respectively.

Capital Assets

At June 30, 2015, the University had \$1.3 billion invested in capital assets and accumulated depreciation of \$505.0 million. Depreciation charges totaled \$27.4 million, \$26.4 million, and \$26.8 million for the years ended June 30, 2015, 2014, and 2013, respectively. Details of capital asset amounts are below:

	2015	2014	2013
Land, land improvements, and infrastructure	\$ 92,232,836	\$ 89,985,834	\$ 86,517,749
Buildings and improvements	907,464,388	903,337,336	900,219,220
Buildings under capital lease	20,796,391	20,796,391	10,578,574
Furniture, fixtures, and equipment	74,341,434	69,013,636	66,977,890
Library collections	90,524,267	88,485,260	86,738,762
Construction in progress	67,987,143	23,176,132	38,705,819
Total	<u>\$ 1,253,346,459</u>	<u>\$ 1,194,794,589</u>	<u>\$ 1,189,738,014</u>

During fiscal year 2013, the University completed demolition and reconstruction of Sangren Hall, which houses the College of Education and Human Development. This project was financed with bond proceeds and state capital appropriations.

The University completed construction of the Zhang Legacy Collections Center during fiscal year 2014. This state-of-the-art facility houses the WMU Archives and Regional History Collections and was financed with private gifts and other available funds.

Western Michigan University

Management's Discussion and Analysis (Continued)

During fiscal year 2014, the University also substantially completed renovation of a building in downtown Kalamazoo that was donated to the University during fiscal year 2012. This building houses the Western Michigan University Homer Stryker M.D. School of Medicine which welcomed its second class of students in August 2015. The University is leasing the building to the medical school, and it has been accounted for as a capital lease. During fiscal year 2015, contractors continued to work on punch list items throughout the building with final completion set for this coming fiscal year.

The University continued construction on several projects during fiscal year 2015 that were started during fiscal year 2014. Western Heights is a freshman residence hall located in the center of campus. This facility was completed in August 2015. Heritage Hall is scheduled for completion in October 2015. The facility will house an alumni center located on East Campus which was the original site of the University. Groundbreaking for the Valley Dining Center took place in June 2015 and will primarily serve the 12 residence halls in the Valley and will seat about 1,000 guests. It will provide restaurant style options for students with numerous seating options to create a comfortable and social space for guests to connect with others during meals. These facilities are funded with bond proceeds, gifts, and other available funds.

Debt

At June 30, 2015, the University had \$418.3 million in bonded debt obligations outstanding versus \$390.6 million the previous year, an increase of 7.1 percent. At June 30, 2014, the bonded debt obligations had increased 34.7 percent, from a balance of \$289.9 million at June 30, 2013.

The University issued \$30.0 million of general revenue refunding bonds, rated A1, during fiscal year 2015 to advance refund prior bonds. The University also issued \$109.3 million of general revenue and refunding bonds, rated A1, during fiscal year 2015 to advance refund prior bonds and pay costs for new construction projects. The University issued \$69.0 million of lease rental revenue bonds to finance the renovation of the building that houses the Homer Stryker M.D. School of Medicine during fiscal year 2014. A total of \$69.0 million and \$47.5 million was outstanding on the lease rental revenue bonds at June 30, 2015 and June 30, 2014, respectively.

The University has partnered with Borgess Health and Bronson Healthcare to form the Western Michigan University School of Medicine (WMed). WMed is a private 501(c)(3) nonprofit corporation supported by private gifts, clinical revenue, research activity, tuition from students, and endowment income.

The University entered into a lease agreement with WMed during fiscal year 2014. Under the terms of the lease agreement, WMed agrees to pay the University lease rental payments which at a minimum will be established in amounts sufficient to pay the principal and interest on the lease rental revenue bonds issued to fund the renovation cost of the donated building. WMed will be responsible for the maintenance, utilities, and other costs of the facility as outlined in the terms of the lease.

Western Michigan University

Management's Discussion and Analysis (Continued)

The University obtained a \$30 million secured line of credit on March 15, 2013 to provide bridge financing for project costs related to the renovation of the building. The balance due on this line was \$6.7 million at June 30, 2013. During fiscal year 2014, an additional \$7.2 million was drawn against the line of credit. The balance of \$13.9 million was repaid in full prior to June 30, 2014.

Other Information

The board of trustees approved an affiliation agreement between the University and the Thomas M. Cooley Law School (Cooley). Cooley remains an independent nonprofit corporation under the affiliation agreement but has been renamed the Western Michigan University Thomas M. Cooley Law School. The affiliation was approved by the American Bar Association and the Higher Learning Commission in August 2014. Some of the collaborative opportunities that have been discussed between the University and Cooley include a "3+3 program" allowing students to complete their bachelor's and law degrees in just six years; interdisciplinary teaching and research opportunities for faculty; and additional joint course offerings in areas that might focus on the legal environment for business, education, health care, or intellectual property.

Economic Factors That Will Affect the Future

Acting in its June meeting, the Western Michigan University board of trustees adopted a \$388.0 million General Fund operating budget for the 2015-2016 year, as well as a tuition and fees rate increase.

The new budget reflects that the University's state appropriation for the 2015-2016 year is expected to be \$104.2 million. Tuition and fees for resident undergraduate students will increase 3.22 percent. Additional revenue from this rate increase, as well as enrollment changes, will result in a projected net revenue increase of \$8.4 million for the 2015-2016 year. Budgeted expenses have increased for compensation, compensation study, utilities, financial aid, and College Differential program support.

Western Michigan University's tuition cost ranks ninth among the state's 15 public universities, even though it is one of Michigan's four largest, most complex, and highly regarded research institutions. The University continues to offer exceptional value to its students.

Western Michigan University

Statement of Net Position

	June 30	
	2015	2014
Current Assets		
Cash and cash equivalents (Note 2)	\$ 51,780,576	\$ 44,740,627
Short-term investments (Note 2)	152,256	148,685
Accounts receivable - Net (Note 3)	37,087,019	36,159,403
Inventories	2,703,140	2,671,224
Current portion of capital lease receivable (Note 4)	1,535,000	-
Deposits, prepaid expenses, and other assets	2,684,465	2,609,314
Total current assets	95,942,456	86,329,253
Long-term Investments (Note 2)	208,376,489	216,063,035
Student Loans Receivable - Net (Note 3)	8,943,447	8,960,158
Capital Lease Receivable (Note 4)	67,415,000	68,950,000
Other Assets	111,663	232,850
Capital Assets - Net (Note 5)	748,300,112	712,637,125
Total assets	1,129,089,167	1,093,172,421
Deferred Outflows of Resources		
Loss on refunding of bonds payable	9,323,779	-
MPERS pension related deferrals	383,526	-
Total deferred outflows	9,707,305	-
Current Liabilities		
Current portion of debt obligations (Note 6)	17,641,143	15,298,977
Current portion of other postemployment benefits (Note 9)	5,124,918	5,278,000
Accounts payable	27,267,687	24,442,089
Due to depositors	428,435	956,036
Accrued payroll and withholdings	19,613,825	25,416,912
Insurance and other claims payable (Note 8)	6,260,533	6,395,556
Tuition and fees received in advance	3,428,617	6,445,210
Other liabilities	8,328,411	16,716,187
Total current liabilities	88,093,569	100,948,967
Long-term Liabilities		
Other long-term obligations - Net of current portion (Note 6)	453,740,193	411,866,099
Other postemployment benefits - Net of current portion (Note 9)	175,777,710	167,445,831
Net pension liability (Note 10)	81,280,501	-
Total long-term liabilities	710,798,404	579,311,930
Total liabilities	798,891,973	680,260,897
Deferred Inflows of Resources - Gain on refunding of bonds payable	1,280,904	1,419,381
Net Position		
Unrestricted	(94,596,058)	(18,028,112)
Restricted for:		
Expendable	2,930,053	2,327,580
Loans	8,923,561	8,952,954
Other	7,453,641	8,225,520
Net investment in capital assets	413,912,398	410,014,201
Total net position	<u>\$ 338,623,595</u>	<u>\$ 411,492,143</u>

Western Michigan University

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30	
	2015	2014
Operating Revenue		
Tuition and fees	\$ 286,203,225	\$ 278,579,863
Scholarship allowance	(54,631,573)	(51,605,050)
Net tuition and fees	231,571,652	226,974,813
Governmental grants and contracts	16,406,396	16,407,706
Other grants and contracts	8,002,960	7,080,284
Departmental and other educational activities	32,138,742	31,760,151
Auxiliary activities	94,112,478	94,943,134
Scholarship allowance	(9,640,866)	(9,829,533)
Net auxiliary activities	84,471,612	85,113,601
Other revenue	9,761,249	8,359,471
Total operating revenue	382,352,611	375,696,026
Operating Expenses		
Instruction	168,881,659	169,196,815
Departmental research	16,982,080	18,997,041
Public service	12,194,717	11,761,622
Academic support	56,549,996	50,916,613
Student services	27,938,374	27,219,693
Institutional support	43,939,211	40,967,914
Operations and maintenance of plant	37,839,325	37,407,035
Scholarships and fellowships	31,641,574	32,801,596
Auxiliary activities	74,833,764	73,670,520
Depreciation	27,355,287	26,441,053
Other expenditures	3,981,694	6,883,007
Total operating expenses	502,137,681	496,262,909
Net Operating Loss	(119,785,070)	(120,566,883)
Nonoperating Revenue (Expenses)		
State appropriations	102,742,000	97,279,000
Gifts	31,253,332	43,335,400
Pell grant revenue	28,933,889	29,329,359
Other expense	(21,347,183)	(42,841,434)
Investment income and other interest	1,261,547	16,513,167
Interest on capital asset-related debt	(18,852,379)	(16,471,850)
Net nonoperating revenue	123,991,206	127,143,642
Income - Before other	4,206,136	6,576,759
Other		
State capital appropriations	35,056	322,051
Other revenue and capital gifts and grants	2,484,190	7,261,929
Total other	2,519,246	7,583,980
Increase in Net Position	6,725,382	14,160,739
Net Position		
Beginning of year	411,492,143	397,331,404
Adjustment for change in accounting principle (Note 1)	(79,593,930)	-
Net Position - Beginning of year (as restated)	331,898,213	-
End of year	\$ 338,623,595	\$ 411,492,143

Statement of Cash Flows

	Year Ended June 30	
	2015	2014
Cash Flows from Operating Activities		
Tuition and fees	\$ 284,404,419	\$ 275,566,157
Grants and contracts	24,498,664	22,496,707
Payments to suppliers	(189,616,471)	(197,150,795)
Payments to employees	(336,611,725)	(319,789,950)
Loans issued to students	(1,916,965)	(1,608,047)
Collection of loans from students	1,933,676	1,813,859
Student loan interest	133,501	99,179
Auxiliary enterprise charges	94,002,145	94,822,321
Departmental and other	40,797,673	41,995,532
Net cash used in operating activities	(82,375,083)	(81,755,037)
Cash Flows from Noncapital Financing Activities		
Private gifts for annuity purposes	130,935	39,261
Gifts and contributions for other than capital purposes	31,122,397	43,296,139
William D. Ford direct lending receipts	124,477,785	130,105,391
William D. Ford direct lending disbursements	(124,477,785)	(130,105,391)
PLUS loan receipts	25,984,849	25,767,277
PLUS loan disbursements	(25,984,849)	(25,767,277)
Pell grant revenue	28,933,889	29,329,359
Agency transactions	1,198,109	2,813,839
Other	(17,464,900)	(27,495,397)
State appropriations	101,758,728	96,943,274
Net cash provided by noncapital financing activities	145,679,158	144,926,475
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(67,051,331)	(71,619,142)
Proceeds net of deposits from disposal of assets	150,774	159,168
Proceeds from issuance of debt	160,830,304	140,814,696
Principal paid on capital debt	(143,717,128)	(41,038,854)
Capital grant, gift, and other proceeds	2,484,190	7,261,929
Capital appropriations	168,683	1,368,802
Deposits to trustee to purchase capital assets	(3,102,842)	(54,475,639)
Decrease in line of credit	-	(6,655,558)
Interest paid on capital debt	(17,940,639)	(16,096,159)
Net cash used in capital and related financing activities	(68,177,989)	(40,280,757)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	24,288,756	4,349,732
Interest on investments	4,207,867	3,923,741
Purchase of investments	(16,582,760)	(21,999,851)
Net cash provided by (used in) investing activities	11,913,863	(13,726,378)
Net Increase in Cash and Cash Equivalents	7,039,949	9,164,303
Cash and Cash Equivalents - Beginning of year	44,740,627	35,576,324
Cash and Cash Equivalents - End of year	\$ 51,780,576	\$ 44,740,627

Western Michigan University

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2015	2014
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (119,785,070)	\$ (120,566,883)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	27,355,287	26,441,053
Amortization of bond issuance costs	(950,285)	(648,195)
Decrease (increase) in assets:		
Federal and state grants receivable	89,308	(991,283)
Accounts receivable - Net	(40,900)	(809,034)
Inventories	(31,916)	(124,675)
Prepaid assets and other current assets	46,036	933,053
Loans to students	16,711	205,812
Increase (decrease) in liabilities:		
Accounts payable	2,584,538	2,339,031
Accrued payroll and other compensation	(8,294,623)	2,423,966
Net pension liability	(3,557,319)	-
Other liabilities and deferreds	23,209,743	10,424,746
Unearned tuition and fees	(3,016,593)	(1,382,628)
Net cash used in operating activities	<u>\$ (82,375,083)</u>	<u>\$ (81,755,037)</u>

Western Michigan University

Discretely Presented Component Units Balance Sheet and Statement of Activities and Changes in Net Assets

Balance Sheet	Western Michigan University Foundation		Western Michigan University School of Medicine		Western Michigan University Research Foundation		Paper Technology Foundation, Inc.	
	June 30		June 30		June 30		June 30	
	2015	2014	2015	2014	2015	2014	2015	2014
Assets								
Cash and short-term investments	\$ 30,528,347	\$ 14,390,596	\$ 1,681,031	\$ 1,045,360	\$ 1,295,147	\$ 2,494,411	\$ 401,902	\$ 408,287
Investments (Note 2)	315,754,336	307,095,342	5,630,602	4,211,859	4,153,790	4,099,452	5,787,345	6,012,213
Pledges receivable - Net (Note 3)	92,411,834	85,803,451	35,000	325,000	-	-	59,297	74,728
Cash surrender value of life insurance policies	1,048,449	1,430,018	-	-	-	-	-	-
Other receivable	-	115,641	2,223,288	1,267,739	3,506,679	4,257,399	-	-
Other assets	-	-	1,434,541	1,378,562	-	-	-	-
Land, land contracts, and other property	2,477,953	2,656,569	95,049,773	93,379,026	-	-	-	-
Total assets	\$ 442,220,919	\$ 411,491,617	\$ 106,054,235	\$ 101,607,546	\$ 8,955,616	\$ 10,851,262	\$ 6,248,544	\$ 6,495,228
Liabilities								
Accounts payable	\$ -	\$ 260	\$ 1,857,372	\$ 1,281,751	\$ 24,801	\$ 33,030	\$ -	\$ 48
Outstanding checks in excess of cash	-	-	459,884	358,437	-	-	-	-
Deposits held in escrow	100,000	100,000	-	-	-	-	-	-
Accrued payroll, withholdings, and other	-	-	3,504,160	2,264,714	6,783	10,010	-	-
Capital lease obligation	-	-	68,950,000	68,950,000	-	-	-	-
Deferred compensation	-	-	5,193,532	3,939,553	-	-	-	-
Total liabilities	100,000	100,260	79,964,948	76,794,455	31,584	43,040	-	48
Net Assets								
Unrestricted	205,060,757	193,995,562	4,134,883	6,413,831	8,924,032	10,808,222	1,616,772	1,640,505
Temporarily restricted	163,691,262	147,897,921	21,516,131	18,064,960	-	-	2,721,301	3,006,647
Permanently restricted	73,368,900	69,497,874	440,273	334,300	-	-	1,910,471	1,848,028
Total net assets	442,120,919	411,391,357	26,091,287	24,813,091	8,924,032	10,808,222	6,248,544	6,495,180
Total liabilities and net assets	\$ 442,220,919	\$ 411,491,617	\$ 106,056,235	\$ 101,607,546	\$ 8,955,616	\$ 10,851,262	\$ 6,248,544	\$ 6,495,228
Statement of Activities and Changes in Net Assets								
	Year Ended June 30		Year Ended June 30		Year Ended June 30		Year Ended June 30	
	2015	2014	2015	2014	2015	2014	2015	2014
Revenue Gains, Losses, and Other Support								
Gifts, contributions, and other	\$ 53,902,487	\$ 35,066,165	\$ 15,970,160	\$ 24,712,223	\$ -	\$ -	\$ 650,418	\$ 289,533
Investment income (loss)	6,917,325	6,207,832	-	-	(18,248)	1,851,483	121,493	118,555
Contracted services and support	-	-	36,208,232	36,907,670	-	-	-	-
Patient service revenue	-	-	9,681,730	9,194,607	-	-	-	-
Governmental grants and contracts	-	-	6,109,037	3,190,246	-	1,930,000	-	-
Other income	-	-	-	-	97,583	193,780	-	-
Net (loss) gain from security and other investment transactions	(7,852,221)	28,499,363	-	-	-	-	(169,682)	678,763
Contributed services	474,377	-	-	-	15,523	-	21,593	-
Net transfers from Western Michigan University	17,148,487	30,938,960	65,280	444,800	167,946	94,072	79,393	62,417
Total revenue gains, losses, and other support	70,590,455	100,712,320	68,034,439	74,449,546	262,804	4,069,335	703,215	1,149,268
Expenditures and Distributions								
Program services	23,931	106,860	52,383,101	48,150,742	-	-	86,985	129,225
Management and general	1,034,340	309,354	14,373,142	7,611,588	2,146,994	2,507,082	52,665	53,416
Fundraising	4,062,059	3,363,842	-	-	-	-	120,749	114,428
Total expenditures	5,120,330	3,780,056	66,756,243	55,762,330	2,146,994	2,507,082	260,399	297,069
Distributions	34,740,563	54,562,689	-	-	-	-	689,452	337,087
Total expenditures and distributions	39,860,893	58,342,745	66,756,243	55,762,330	2,146,994	2,507,082	949,851	634,156
Change in Net Assets	30,729,562	42,369,575	1,278,196	18,687,216	(1,884,190)	1,562,253	(246,636)	515,112
Net Assets - Beginning of year	411,391,357	369,021,782	24,813,091	6,125,875	10,808,222	9,245,969	6,495,180	5,980,068
Net Assets - End of year	\$ 442,120,919	\$ 411,391,357	\$ 26,091,287	\$ 24,813,091	\$ 8,924,032	\$ 10,808,222	\$ 6,248,544	\$ 6,495,180

Note I - Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The financial statements of Western 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.

The financial statements of the University have been prepared on the accrual basis, whereby all revenue is recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

GASB Statement No. 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 of those assets.
- **Restricted** - Net assets subject to externally imposed constraints such that they may be maintained permanently by the University, or net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.
- **Unrestricted** - Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of management or the board of trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties.

These statements have also been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity (GASB Statement No. 61). These criteria include significant operational or financial relationships with the University. Based on application of the criteria, the University has four component units. The adoption of GASB Statement No. 61 did not have any impact on the University's financial statements.

Note I - Basis of Presentation and Significant Accounting Policies (Continued)

Summary of Significant Accounting Policies

Component Unit - Western Michigan University is an institution of higher education located in Kalamazoo, Michigan, and is considered to be a component unit of the State of Michigan (the "State") because its board of trustees 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.

Component Units of the University - Western Michigan University Foundation, Paper Technology Foundation, Inc., Western Michigan University Research Foundation, and Western Michigan University School of Medicine (WMed) statements are discretely presented as part of the University's reporting entity. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) and have not been modified for GASB. The officers of Western Michigan University Foundation and Paper Technology Foundation, Inc. include certain University administrative officials, but the University does not have controlling interest in those foundations' boards. The University does have controlling interest in Western Michigan University Research Foundation and WMed. The Internal Revenue Service has determined that the component units are tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Western Michigan University Foundation operates exclusively for the benefit of Western Michigan University. The foundation provides support for the objectives, goals, and mission of the University. The foundation assists in accomplishing the educational purposes of the University.

Paper Technology Foundation, Inc. was established to aid and promote, by financial assistance and guidance, education and research in paper technology and related areas at Western Michigan University. The University has paid certain expenses of Paper Technology Foundation, Inc.

Western Michigan University Research Foundation operates for the benefit of Western Michigan University to promote, encourage, and aid scientific investigation and research as well as commercialization endeavors. The University has paid certain expenses of Western Michigan University Research Foundation.

Note I - Basis of Presentation and Significant Accounting Policies (Continued)

WMed operates and manages medical education and training programs. WMed's clinics provide medical services to patients, a substantial portion of which are Medicaid and Medicare recipients.

A complete copy of the audited financial statements of Western Michigan University Foundation, Paper Technology Foundation, Inc., Western Michigan University Research Foundation, and WMed is available at each respective organization's offices.

Cash and Investments - Cash and cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased. The University's cash, comprised of working capital and permanent-core assets, is principally invested in investment-grade securities that are readily convertible to cash. The cash is allocated to securities that meet short-, intermediate-, and long-term investment objectives. 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. Included in long term investments at June 30, 2015 and 2014 are approximately \$58.8 million and \$56.0 million, respectively, of unspent bond proceeds.

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

Operating and Nonoperating Revenue - Operating activities as reported on the statement of revenue, expenses, and changes in net position are 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 of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue, as defined by GASB Statement No. 34, including state appropriations, federal Pell grant revenue, gifts, and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the recipient University department within the guidelines of donor restrictions, if any.

Note I - Basis of Presentation and Significant Accounting Policies (Continued)

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 future capital improvements for extended university programs and for significant repair and maintenance costs to residence facilities. Physical properties, with the exception of land, are depreciated on the straight-line method over the estimated useful service lives of the respective assets. Estimated service lives are as follows:

Land improvements	20 years
Buildings	50 years
Equipment and software	3-15 years
Library holdings	10 years

Bond Issuance Costs - Bond issuance costs are expensed in the period incurred while prepaid insurance costs related to bond issuance are amortized over the life of the bonds using the straight-line method. Gains and losses resulting from refunding bonds are booked as deferred outflows and inflows and recognized as a component of interest expense over the shorter of the remaining term of the old debt or the term of the new debt.

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.

Deferred Outflows of Resources - In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The government deferred outflows of resources related to the net pension liability, see Note 10 for more information.

Deferred Inflows of Resources - In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government deferred inflows of resources related to the net pension liability (see Note 10 for more information).

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

Adoption of New Standard - The GASB issued 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*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB No. 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. The statements also enhance accountability and transparency through revised note disclosures and required supplemental information (RSI). In accordance with the statements, the University has reported a change in accounting principle adjustment to unrestricted net position of \$79,593,930, which is the net of the net pension liability and related deferred outflows as of July 1, 2014. June 30, 2014 amounts have not been restated to reflect the impact of GASB No. 68 because the information is not available to calculate the impact on pension expense for the fiscal year ended June 30, 2014.

Reclassifications - Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

Note 2 - Cash and Investments

The University uses the “pooled cash” method of accounting for substantially all of its cash and investments. In order to maximize earnings, the cash and certain investments of Western Michigan University Foundation, Western Michigan University Research Foundation, and Paper Technology Foundation, Inc. are pooled with those of the University. External investment managers are provided with an investment policy statement, as set forth by the board of trustees.

As of June 30, 2015, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money market funds	\$ 110,691,690	\$ 110,691,690	\$ -	\$ -	\$ -
Intermediate-term mutual funds	43,886,650	-	37,703,957	6,182,693	-
Equity index mutual funds	4,314,937	-	-	-	4,314,937
Equity funds	65,556,392	-	-	-	65,556,392
Bond funds	17,225,398	-	14,661,575	2,563,823	-
Land and land contracts	93,500	-	-	-	93,500
Bank loans	6,026,738	-	-	-	6,026,738
Real Estate Investment Trust Fund	12,514,016	-	-	-	12,514,016
Total	<u>\$ 260,309,321</u>	<u>\$ 110,691,690</u>	<u>\$ 52,365,532</u>	<u>\$ 8,746,516</u>	<u>\$ 88,505,583</u>

Note 2 - Cash and Investments (Continued)

As of June 30, 2014, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money market funds	\$ 100,545,329	\$ 100,545,329	\$ -	\$ -	\$ -
Intermediate-term mutual funds	52,266,765	-	45,956,170	6,310,595	-
Equity index mutual funds	4,884,823	-	-	-	4,884,823
Equity funds	65,053,547	-	-	-	65,053,547
Bond funds	14,142,616	-	11,408,426	2,734,190	-
Land and land contracts	93,500	-	-	-	93,500
Bank loans	11,375,783	-	-	-	11,375,783
Real Estate Investment Trust Fund	12,589,984	-	-	-	12,589,984
Total	<u>\$ 260,952,347</u>	<u>\$ 100,545,329</u>	<u>\$ 57,364,596</u>	<u>\$ 9,044,785</u>	<u>\$ 93,997,637</u>

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

Asset Category	Target	Range
U.S. equities	28.6%	20-40%
International equities	28.6%	20-40%
Fixed income	28.6%	20-40%
Real estate (REITs)	14.2%	10-20%

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").

The annuity and life income funds are invested on the policy that they are held to maturity; therefore, the interest rate risk is not considered in its decisions. Effective July 25, 2012, the board of trustees approved a revised investment policy to create a permanent core asset allocation committed to both equity and fixed-income securities.

Note 2 - Cash and Investments (Continued)

Credit Risk - For investments in nonmutual and nonpooled funds, no more than 10 percent of the portfolio, at cost, can be invested in any single issue, except the investments in U.S. government securities. The weighted average credit quality is to be no less than "AAA" (or its equivalent rating by two national rating agencies) for the short-term investment pool accounts and "A" for the intermediate-term investment pool accounts.

In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be "A" for the short-term pool accounts and "BBB" for the intermediate-term investment pool accounts.

At June 30, 2015 and 2014, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2015	NRSRO	2014	NRSRO
	Market Value	Rating	Market Value	Rating
Bond mutual funds:				
Western Asset Intermediate Bond Portfolio	\$ 16,553,172	AA-	\$ 13,281,799	AA-
PIMCO Moderate Duration Fund	-		17,832,411	A+
Barclays TIPs Bond Fund	6,182,693	AAA	6,310,595	AAA
SSGA Charitable Bond Fund	246,463	AA	295,037	AA
SSGA High Yield Bond Fund	80,750	B+	79,514	B
Vanguard Total Bond Fund	1,855,409	AA	1,946,323	AA
TIPs Bond Fund	381,201	AAA	413,316	AAA
JPMorgan Short Duration Bond Fund	15,233,879	AA+	8,105,712	AA+
FPA New Income Fund	14,459,071	AA	11,313,230	AA
Vanguard Short-Term Bond ETF	14,122,122	AA+	8,169,940	AA+
Templeton Global Bond Fund	14,661,575	BBB+	11,408,426	A-
Total	<u>\$ 83,776,335</u>		<u>\$ 79,156,303</u>	

At June 30, 2015 and 2014, Western Michigan University Foundation's, Paper Technology Foundation, Inc.'s, and Western Michigan University Research Foundation's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	Western Michigan University Foundation			Paper Technology Foundation, Inc.			Western Michigan University Research Foundation		
	2015	2014		2015	2014		2015	2014	
Intermediate-term mutual funds	\$ 21,461,136	\$ 10,584,947	AA+	\$ 284,935	\$ 304,099	AA+	\$ 918,216	\$ 1,857,876	AA+

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

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 risk because their existence is not evidenced by securities that exist in physical or book-entry form. At June 30, 2015 and 2014, the carrying amount of the University's deposits was \$61,378,050 and \$49,332,622, respectively. These amounts include the Foundations' balances of \$2,873,152 and \$2,653,105, respectively. Of that amount, \$28,840,000 and \$3,939,938 was insured as of June 30, 2015 and 2014, respectively. The remaining \$32,538,050 and \$45,392,684 at June 30, 2015 and 2014, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University's cash investment policy provides that investment pool direct placements are to be sufficiently diversified and provides that no more than 10 percent of its assets can be in any particular issue. The foregoing restrictions do not apply to securities that are issued or fully guaranteed by the United States government. The University did not have investments in any single issuer that equaled ten percent or more in 2015 or 2014.

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, 2015 and 2014, the University had approximately \$60,000,000 and \$57,000,000, respectively, invested in mutual funds that have funds invested in various countries throughout the world and therefore, expose the University to foreign currency risk indirectly. The University did not have any direct investments or deposits denominated in foreign currencies at June 30, 2015 and 2014. These amounts include the Foundations' balances of \$2,700,000 and \$3,000,000, respectively.

Western Michigan University

Notes to Financial Statements June 30, 2015 and 2014

Note 2 - Cash and Investments (Continued)

Investments at Western Michigan University Foundation, Paper Technology Foundation, Inc., and Western Michigan University Research Foundation are as follows:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Research Foundation	
	2015	2014	2015	2014	2015	2014
Corporate stocks	\$ 31,253,822	\$ 1,056,014	\$ 666,391	\$ 25,096	\$ -	\$ -
Alternative investments	113,651,693	104,787,477	2,270,862	2,238,794	4,153,790	4,099,452
Real estate	10,266,911	9,357,783	219,013	222,963	-	-
Mutual funds:						
Equity	121,486,768	142,440,824	2,204,289	2,986,777	-	-
Fixed income	39,095,142	49,453,244	426,790	538,583	-	-
Total	\$ 315,754,336	\$ 307,095,342	\$ 5,787,345	\$ 6,012,213	\$ 4,153,790	\$ 4,099,452

Net gains from security transactions for the years ended June 30, 2015 and 2014 are as follows for each foundation:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.	
	2015	2014	2015	2014
Unrealized appreciation (depreciation)	\$ (22,223,188)	\$ 17,362,303	\$ (499,397)	\$ 414,985
Realized gains	14,370,967	11,137,062	329,715	263,778
Total	\$ (7,852,221)	\$ 28,499,365	\$ (169,682)	\$ 678,763

Trustee and brokerage fees associated with the maintenance of the endowment securities portfolio were \$4,448,992 and \$3,960,625 and \$76,949 and \$69,900 for the years ended June 30, 2015 and 2014, respectively, for Western Michigan University Foundation and Paper Technology Foundation, Inc., respectively. For recording purposes, these fees have been netted with investment income. Western Michigan University Foundation and Paper Technology Foundation, Inc. investments are stated at fair value based upon quoted market prices or are based on information provided by the fund managers or the general partners of the investment funds.

Western Michigan University

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Receivables

As of June 30, 2015 and 2014, accounts receivable consisted of the following:

	2015	2014
Appropriations from the State of Michigan for operations	\$ 18,680,366	\$ 17,697,094
Sponsored research grants receivable	3,314,275	3,403,583
Student accounts receivable	10,911,099	12,141,358
Capital appropriations from the State of Michigan	-	133,627
Other	<u>8,685,062</u>	<u>7,536,708</u>
Total	41,590,802	40,912,370
Less allowances for doubtful accounts	<u>(4,503,783)</u>	<u>(4,752,967)</u>
Net accounts receivable	<u>\$ 37,087,019</u>	<u>\$ 36,159,403</u>

As of June 30, 2015 and 2014, student loans receivable consisted of the following:

	2015	2014
Student loans receivable	\$ 9,005,602	\$ 9,049,786
Less allowance for doubtful accounts	<u>(62,155)</u>	<u>(89,628)</u>
Net student loans receivable	<u>\$ 8,943,447</u>	<u>\$ 8,960,158</u>

As of June 30, 2015 and 2014, pledges receivable at the component units consisted of the following:

	Western Michigan University Foundation		Paper Technology Foundation, Inc.		Western Michigan University Research Foundation		Western Michigan University School of Medicine	
	2015	2014	2015	2014	2015	2014	2015	2014
Pledges expected to be collected within 1 year	\$ 40,783,174	\$ 29,453,330	\$ 12,987	\$ 9,547	\$ -	\$ -	\$ 35,000	\$ 325,000
Pledges expected to be collected in 1-5 years	<u>55,330,558</u>	<u>58,346,718</u>	<u>50,900</u>	<u>71,500</u>	-	-	-	-
Total	96,113,732	87,800,048	63,887	81,047	-	-	35,000	325,000
Less:								
Allowance for uncollectible contributions	(821,200)	(390,566)	(3,056)	(4,214)	-	-	-	-
Present value discount	<u>(2,880,698)</u>	<u>(1,606,031)</u>	<u>(1,534)</u>	<u>(2,105)</u>	-	-	-	-
Net pledges receivable	<u>\$ 92,411,834</u>	<u>\$ 85,803,451</u>	<u>\$ 59,297</u>	<u>\$ 74,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 325,000</u>

Note 3 - Receivables (Continued)

Pledges receivable are presented net of a discount for the value of future cash flows and an allowance for uncollectible contributions. The discount to present value was calculated using the yield on a one-year and three-year Treasury bill, equal to 1.01 percent and 0.88 percent as of June 30, 2015 and 2014, respectively. The allowance for uncollectible contributions is a general valuation allowance of 5.1 percent and 5.2 percent for 2015 and 2014, respectively, established based on historical contribution collection history. Estate gifts receivable at Western Michigan University Foundation of approximately \$1,022, and \$1,289,000 at June 30, 2015 and 2014, respectively, included in the total pledges receivable, have no allowance for uncollectible contributions. Pledges deemed uncollectible are charged against the allowance for uncollectible contributions in the period in which the determination is made.

Note 4 - Capital Lease Receivable

Western Michigan University leases a building located at 300 Portage Street in downtown Kalamazoo to the Western Michigan University School of Medicine (WMed). The lease is classified as a single-unit direct financing lease and specifies that WMed will pay the University lease rental payments which at a minimum will be sufficient to pay the principal and interest on the lease rental revenue bonds issued by the University to fund the renovation cost of the building. The lease rental revenue bonds are payable over five years with a 30-year amortization and a balloon payment at the end of five years. The lease calls for an initial 50-year term with an automatic five-year renewal option. The lease was capitalized using a 1.9 percent capitalization rate. As a result of the transaction, the University recorded a loss of approximately \$3.9 million and \$15.3 million at June 30, 2015 and 2014, respectively, related to the disposal of the building that was previously donated during 2012 and accordingly recorded \$20.1 million in gift income in 2012.

The amounts receivable under the lease are as follows:

	Capital Lease Receivable		
	Principal	Interest	Total
2016	\$ 1,535,000	\$ 1,269,924	\$ 2,804,924
2017	1,555,000	1,275,072	2,830,072
2018	1,580,000	1,244,984	2,824,984
2019	64,280,000	516,547	64,796,547
Total	<u>\$ 68,950,000</u>	<u>\$ 4,306,527</u>	<u>\$ 73,256,527</u>

Note 5 - Capital Assets

The following table presents the changes in the various fixed-asset class categories for the year ended June 30, 2015:

2015	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets:				
Land	\$ 16,791,575	\$ 475,529	\$ -	\$ 17,267,104
Construction in progress	23,176,132	68,839,777	24,028,766	67,987,143
Total nondepreciable property	39,967,707	69,315,306	24,028,766	85,254,247
Land improvements	73,194,259	1,771,473	-	74,965,732
Buildings	903,337,336	7,297,781	3,170,729	907,464,388
Buildings under capitalized lease	20,796,391	-	-	20,796,391
Equipment, software, and other	69,013,636	8,043,285	2,715,487	74,341,434
Library holdings	88,485,260	2,039,007	-	90,524,267
Total depreciable property	<u>1,154,826,882</u>	<u>19,151,546</u>	<u>5,886,216</u>	<u>1,168,092,212</u>
Total capital assets	1,194,794,589	88,466,852	29,914,982	1,253,346,459
Less accumulated depreciation:				
Land improvements	35,791,730	2,857,391	1,501	38,647,620
Buildings	309,351,718	16,880,592	1,771,340	324,460,970
Buildings under capitalized lease	2,791,964	415,742	-	3,207,706
Equipment, software, and other	55,748,734	5,531,390	2,693,563	58,586,561
Library holdings	78,473,318	1,670,172	-	80,143,490
Total accumulated depreciation	<u>482,157,464</u>	<u>\$ 27,355,287</u>	<u>\$ 4,466,404</u>	<u>505,046,347</u>
Capital assets - Net	<u>\$ 712,637,125</u>			<u>\$ 748,300,112</u>

Note 5 - Capital Assets (Continued)

The following table presents the changes in the various fixed-asset class categories for the year ended June 30, 2014:

2014	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets:				
Land	\$ 16,772,401	\$ 19,174	\$ -	\$ 16,791,575
Construction in progress	<u>38,705,819</u>	<u>72,177,999</u>	<u>87,707,686</u>	<u>23,176,132</u>
Total nondepreciable property	55,478,220	72,197,173	87,707,686	39,967,707
Land improvements	69,745,348	3,448,911	-	73,194,259
Buildings	900,219,220	7,810,884	4,692,768	903,337,336
Buildings under capitalized lease	10,578,574	10,217,817	-	20,796,391
Equipment, software, and other	66,977,890	4,901,118	2,865,372	69,013,636
Library holdings	<u>86,738,762</u>	<u>1,746,498</u>	<u>-</u>	<u>88,485,260</u>
Total depreciable property	<u>1,134,259,794</u>	<u>28,125,228</u>	<u>7,558,140</u>	<u>1,154,826,882</u>
Total capital assets	1,189,738,014	100,322,401	95,265,826	1,194,794,589
Less accumulated depreciation:				
Land improvements	33,064,971	2,726,759	-	35,791,730
Buildings	295,646,783	17,122,154	3,417,219	309,351,718
Buildings under capitalized lease	2,563,549	228,415	-	2,791,964
Equipment, software, and other	53,985,177	4,606,600	2,843,043	55,748,734
Library holdings	<u>76,716,193</u>	<u>1,757,125</u>	<u>-</u>	<u>78,473,318</u>
Total accumulated depreciation	<u>461,976,673</u>	<u>\$ 26,441,053</u>	<u>\$ 6,260,262</u>	<u>482,157,464</u>
Capital assets - Net	<u>\$ 727,761,341</u>			<u>\$ 712,637,125</u>

The estimated cost to complete major construction projects in progress and scheduled to begin is approximately \$76 million as of June 30, 2015. The University has committed to a new dining facility to open in the Fall of 2016 at a cost of \$36.2 million. A freshmen residence hall will open in August 2015 at a cost of \$48 million and East Campus is being redeveloped to include an alumni center at a total cost of \$26.8 million. These projects are funded from bond proceeds and internally designated sources.

Note 6 - Long-term Obligations

Long-term obligation activity for the year ended June 30, 2015 is as follows:

2015	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
General Revenue and Refunding Bonds, Series 2015A, with interest ranging from 2.00% to 5.00%, maturing November 15, 2045	\$ -	\$ 109,310,000	\$ -	\$ 109,310,000	\$ -
General Revenue Refunding Bonds, Series 2014, with interest ranging from 3.00% to 5.00%, maturing November 15, 2035	-	30,040,000	-	30,040,000	-
General Revenue and Refunding Bonds, Series 2013, with interest ranging from 3.00% to 5.25%, maturing November 15, 2043	93,345,000	-	2,930,000	90,415,000	3,010,000
2013 Lease Rental Revenue Bonds, with interest at one-month LIBOR plus 115 basis points, an effective rate of 1.30% at June 30, 2015, maturing November 15, 2018	47,469,696	21,480,304	-	68,950,000	1,535,000
General Revenue and Refunding Bonds, Series 2011, with interest ranging from 3.00% to 5.25%, maturing November 15, 2040	62,525,000	-	2,225,000	60,300,000	2,330,000
General Revenue Refunding Bonds, Series 2009, with interest ranging from 4.25% to 5.25%, maturing November 15, 2022	34,705,000	-	3,135,000	31,570,000	3,300,000
General Revenue Bonds, Series 2008, with interest ranging from 3.75% to 5.00%, maturing November 15, 2032	105,740,000	-	92,820,000	12,920,000	4,175,000
General Revenue Bonds, Series 2005, with interest ranging from 4.00% to 5.00%, maturing November 15, 2035	31,615,000	-	31,615,000	-	-
General Revenue Bonds, Series 2002B, with interest ranging from 5.25% to 5.42%, maturing November 15, 2032	15,245,000	-	490,000	14,755,000	515,000
Notes and Leases Payable					
Capital lease payable for Grand Rapids building, with an effective rate of 4.59% and monthly payments ranging from \$69,016 to \$95,255 for 15 years with two five-year renewal options and a buy-out purchase option	12,149,897	-	1,078,080	11,071,817	984,014
Total bonds, notes, and leases payable	402,794,593	160,830,304	134,293,080	429,331,817	15,849,014
Other Long-term Obligations					
Annuities payable	877,798	-	130,935	746,863	-
Unamortized bond premiums	11,147,461	21,035,314	3,280,859	28,901,916	1,792,129
Accrued compensated absences	12,345,224	953,502	897,986	12,400,740	-
Total long-term obligations	\$ 427,165,076	\$ 182,819,120	\$ 138,602,860	\$ 471,381,336	\$ 17,641,143

Note 6 - Long-term Obligations (Continued)

Long-term obligation activity for the year ended June 30, 2014 is as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
General Revenue and Refunding Bonds, Series 2013, with interest ranging from 3.00% to 5.25%, maturing November 15, 2043	\$ -	\$ 93,345,000	\$ -	\$ 93,345,000	\$ 2,930,000
2013 Lease Rental Revenue Bonds, with interest at one-month LIBOR plus 115 basis points, an effective rate of 1.30% at June 30, 2014, maturing November 15, 2018	-	47,469,696	-	47,469,696	-
General Revenue and Refunding Bonds, Series 2011, with interest ranging from 3.00% to 5.25%, maturing November 15, 2040	64,670,000	-	2,145,000	62,525,000	2,225,000
General Revenue Refunding Bonds, Series 2009, with interest ranging from 4.25% to 5.25%, maturing November 15, 2022	37,680,000	-	2,975,000	34,705,000	3,135,000
General Revenue Bonds, Series 2008, with interest ranging from 3.63% to 5.00%, maturing November 15, 2032	109,845,000	-	4,105,000	105,740,000	3,860,000
General Revenue Bonds, Series 2005, with interest ranging from 3.38% to 5.00%, maturing November 15, 2035	32,450,000	-	835,000	31,615,000	865,000
General Revenue and Refunding Bonds, Series 2003, with interest ranging from 4.25% to 5.00%, maturing November 15, 2023	29,500,000	-	29,500,000	-	-
General Revenue Bonds, Series 2002B, with interest ranging from 4.41% to 5.42%, maturing November 15, 2032	15,715,000	-	470,000	15,245,000	490,000
Notes and Leases Payable					
Capital lease payable for Grand Rapids building, with an effective rate of 4.59% and monthly payments ranging from \$69,016 to \$95,255 for 15 years with two five-year renewal options and a buy-out purchase option	2,940,934	10,217,817	1,008,854	12,149,897	1,078,079
Total bonds, notes, and leases payable	292,800,934	151,032,513	41,038,854	402,794,593	14,583,079
Other Long-term Obligations					
Annuities payable	917,060	-	39,262	877,798	-
Unamortized bond premiums	8,498,821	5,028,672	2,380,032	11,147,461	715,898
Accrued compensated absences	12,566,318	41,159	262,253	12,345,224	-
Total long-term obligations	<u>\$ 314,783,133</u>	<u>\$ 156,102,344</u>	<u>\$ 43,720,401</u>	<u>\$ 427,165,076</u>	<u>\$ 15,298,977</u>

Note 6 - Long-term Obligations (Continued)

The bonds and notes payable are generally callable by the University. The principal and interest amounts are payable as follows:

	Bonds and Notes Payable			Under Capital
	Principal	Interest	Total	Lease
2016	\$ 14,865,000	\$ 16,105,813	\$ 30,970,813	\$ 1,076,110
2017	16,905,000	17,153,074	34,058,074	828,189
2018	18,265,000	16,871,696	35,136,696	844,753
2019	81,850,000	15,308,015	97,158,015	861,648
2020	17,920,000	13,910,852	31,830,852	878,881
2021-2025	79,155,000	56,413,287	135,568,287	4,665,207
2026-2030	69,400,000	39,307,172	108,707,172	5,150,765
2031-2035	53,965,000	22,531,898	76,496,898	815,506
2036-2040	38,005,000	12,020,758	50,025,758	
2041-2045	27,930,000	3,151,856	31,081,856	-
Total	<u>\$ 418,260,000</u>	<u>\$ 212,774,421</u>	<u>\$ 631,034,421</u>	15,121,059
Less amount representing interest				<u>(4,049,242)</u>
Present value of net minimum lease payments				<u>\$ 11,071,817</u>

Interest expense paid by the University on all indebtedness was \$18,852,379 and \$16,471,850 for the years ended June 30, 2015 and 2014, respectively. This includes construction period interest, which is capitalized as part of the cost of the assets constructed of \$2,578,085 and \$1,778,121 for the years ended June 30, 2015 and 2014, respectively.

Bond Defeasance

In July 2014, the University issued \$30,040,000 of General Revenue Refunding Bonds, Series 2014 with an average interest rate of 4.48 percent to advance refund \$30,750,000 outstanding General Revenue Bonds, Series 2005. \$32,142,662 of the proceeds were deposited with the trustee to pay principal and interest on the Series 2005 bonds when called for redemption on May 15, 2015. The advance refunding resulted in an economic gain of \$1,470,348 because total debt service payments decreased by \$1,548,693.

Note 6 - Long-term Obligations (Continued)

In May 2015, the University issued \$109,310,000 of General Revenue and Refunding Bonds, Series 2015 with an average interest rate of 3.32 percent, a portion of which was used to advance refund \$88,960,000 outstanding General Revenue Bonds, Series 2008 with an average interest rate of 4.42 percent. \$99,870,281 of the proceeds was deposited into an escrow account with the trustee and will be used to pay principal and interest on the Series 2008 bonds when called for redemption on May 15, 2018. The advance refunding resulted in an economic gain of \$4,606,505 because total debt service payments decreased by \$5,956,083. The remaining proceeds were used to pay issuance costs and to finance new projects.

Note 7 - Line of Credit

The University obtained a \$30 million secured line of credit on March 15, 2013 to provide bridge financing for project costs related to the renovation of the building located at 300 Portage Street. During fiscal year 2014, an additional \$7.2 million was drawn against the line of credit. The line expired on March 14, 2014 and the balance of \$13.9 million was repaid in full prior to June 30, 2014.

Note 8 - Insurance

The University is a participant in the Michigan Universities Self-Insurance Corporation (MUSIC). This organization provides insurance coverage for errors and omissions liability, comprehensive general liability, and all risk property insurance. In fiscal year 2015, there are 11 universities that participate in MUSIC. Each participating university is responsible for a first tier of losses up to a level that has been actuarially determined. MUSIC is financially responsible for a second tier of losses. For comprehensive general liability errors and omissions and all risk property insurance, MUSIC has purchased excess insurance coverage with commercial insurance carriers to cover a third tier of losses. However, in the event the insurance reserves established by MUSIC are insufficient to meet its second tier obligations, each of the participating universities share this obligation by agreements with MUSIC.

The maximum possible assessment for the University for the year ended June 30, 2015 is \$1.5 million. The University has not been subjected to additional assessments since the formation of MUSIC in 1987. Historically, the obligations and expenses (claims) have been less than the combined periodic payments and accumulated operational reserves for any given year.

Note 8 - Insurance (Continued)

The University is essentially self-insured for hospital/medical, life, and workers' compensation coverage. Stop-loss coverage has been purchased by the University for hospital/medical and workers' compensation. The University is self-insured for long-term disability claims of less than six months in duration and for any claims incurred prior to March 5, 2012 that are still payable. As of March 5, 2012, the University purchased insurance for claims lasting six months or more. Liabilities associated with expected unpaid claims have also been determined and are accrued on the balance sheet.

Claims activity for the year ended June 30, 2015 is as follows:

	Liability - Beginning of Year	Claims Incurred, Including Changes in Estimates	Claim Payments	Liability - End of Year
Hospital/Medical claims	\$ 2,400,000	\$ 36,493,824	\$ (36,603,824)	\$ 2,290,000
Workers' compensation claims	1,372,398	1,278,036	(1,190,498)	1,459,936
Long-term disability claims	2,025,760	240,386	(522,783)	1,743,363
General liability claims	597,398	413,770	(243,934)	767,234
	<u>\$ 6,395,556</u>	<u>\$ 38,426,016</u>	<u>\$ (38,561,039)</u>	<u>\$ 6,260,533</u>

Claims activity for the year ended June 30, 2014 is as follows:

	Liability - Beginning of Year	Claims Incurred, Including Changes in Estimates	Claim Payments	Liability - End of Year
Hospital/Medical claims	\$ 2,250,000	\$ 34,691,169	\$ (34,541,169)	\$ 2,400,000
Workers' compensation claims	1,372,398	813,794	(813,794)	1,372,398
Long-term disability claims	2,374,529	352,051	(700,820)	2,025,760
General liability claims	559,832	423,492	(385,926)	597,398
	<u>\$ 6,556,759</u>	<u>\$ 36,280,506</u>	<u>\$ (36,441,709)</u>	<u>\$ 6,395,556</u>

Note 9 - Retirement Plans

Defined Contribution Plan

The University offers employees eligible for the WMU retirement plan the opportunity to participate in the TIAA-CREF plan. Funding for the plan consists of an employer contribution of 11 percent of covered compensation for employees hired before January 1, 2013. For participating employees hired on or after January 1, 2013, the University contributes 9 percent of covered compensation. The University contribution increases to 10 percent if the employee tax-defers at least 1 percent but less than 2 percent, and to 11 percent if the employee tax-defers 2 percent or more. The University has no liability beyond its contribution. Benefits vest immediately for eligible salaried employees and vest after a five-year period for eligible hourly nonexempt participants. Contributions for the years ended June 30, 2015, 2014, and 2013 were approximately \$20,200,000, \$19,600,000, and \$18,900,000, respectively.

Other Postemployment Benefits

Plan Description - The University provides retiree life insurance, health, and dental care benefits, including prescription drug coverage, to retired employees, their spouses, and dependent children. Benefits are provided to all retired faculty, academic, and support staff that retired at the age of 55 or older and had provided 10 years or more of service to the University for employees hired on or before September 1, 2010. Currently, the plan has 2,796 active members, of which 1,268 are eligible to receive life insurance upon retirement. Employees who are professional and support staff hired after September 1, 2010 pay 100 percent of the premium upon retirement and must be at the age of 60 or older and have provided 15 or more years of service to the University. Other employee groups' agreements vary based on contracts.

This is a single-employer defined benefit plan administered by the University. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions (or by the employer if not funded through the plan).

Funding Policy - Retirees or their surviving spouses are required to make annual contributions of between \$715 to \$18,234, depending on their age and if their spouses or dependents are covered. The University has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The costs of administering the plan are borne by the University.

Note 9 - Retirement Plans (Continued)

Funding Progress - For the years ended June 30, 2015 and 2014, the University has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2015. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

	2015	2014
Annual required contribution (recommended)	\$ 15,303,415	\$ 14,687,434
Interest on the prior year's net OPEB obligation	11,227,049	10,724,255
Less adjustment to annual required contribution	<u>(13,226,749)</u>	<u>(12,634,400)</u>
Annual OPEB cost	13,303,715	12,777,289
Amounts contributed:		
Payments of current premiums	(5,124,918)	(5,041,990)
Advance funding	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	8,178,797	7,735,299
OPEB obligation - Beginning of year	<u>172,723,831</u>	<u>164,988,532</u>
OPEB obligation - End of year	<u>\$ 180,902,628</u>	<u>\$ 172,723,831</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

	Fiscal Year Ended June 30		
	2015	2014	2013
Annual OPEB costs	\$ 13,303,715	\$ 12,777,289	\$ 12,926,788
Percentage contributed	39%	39%	39%
Net OPEB obligation	\$ 180,902,628	\$ 172,723,831	\$ 164,988,532

Note 9 - Retirement Plans (Continued)

The funding progress of the plan as of the most recent valuation date is as follows:

	Valuation as of June 30		
	2015	2014	2013
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	\$ (153,895,212)	\$ (141,454,177)	\$ (132,887,433)
Unfunded AAL (UAAL)	\$ (153,895,212)	\$ (141,454,177)	\$ (132,887,433)
Funded ratio	0.00%	0.00%	0.00%
Annual covered payroll	\$ 157,594,000	\$ 151,355,000	\$ 151,355,000
Ratio of UAAL to covered payroll	97.7%	93.5%	87.8%

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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 June 30, 2015 actuarial valuation, the unit credit method was used. The actuarial assumptions included a 6.35 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after ten years. Both rates included a 2.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a seven-year period.

Note 9 - Retirement Plans (Continued)

For the year ended June 30, 2015, the University used a 6.50 percent investment rate of return, which was consistent with the investment's actual return, to determine the interest on the prior year's net obligation.

Note 10 - Michigan Public School Employees' Retirement System

Plan Description - The University participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially 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.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental 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 System (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 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.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

University 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:

	<u>Funded Portion</u>	<u>Unfunded Portion</u>
June 30, 2015	4.80%	17.72%
June 30, 2014	3.00%	16.61%

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 required and actual contributions to the plan for the years ended June 30, 2015 and 2014 were \$7,548,071 and \$6,800,752, respectively. In addition, the University recognized contributions include \$1,345,381 and \$479,469 revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the years ended June 30, 2015 and 2014, respectively. These funds were also remitted to the plan.

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. 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.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Members are eligible for nonduty 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. Some members who do not receive an annual increase 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, 2015, the University reported a liability of \$81,280,501 for its proportionate share of the net pension liability as calculated for the universities reporting unit of MPSERS. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, which used update procedures to roll forward the estimated liability to September 30, 2014. The University's proportion of the net pension liability was based on statutorily required contributions relative to all participating universities' contributions for the measurement period. At September 30, 2014, the University's proportion was 21.67 percent of the University's reporting unit, which represents 1.67 percent of MPSERS in total. On September 29, 2015, the University received approximately \$24.2 million from the plan for a plan error in requiring excess contributions. This refund reduced the plan's net position and will impact the University's net pension liability as of June 30, 2016.

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Notes to Financial Statements June 30, 2015 and 2014

Note 10 - Michigan Public School Employees' Retirement System (Continued)

For the year ended June 30, 2015 and 2014, the University recognized pension expense of \$8,310,574 and \$6,825,370, respectively. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 2,421,514	\$ -
Net difference between projected and actual earnings on pension plan assets	-	(7,814,393)
Changes in proportion and differences between College contributions and proportionate share of contributions	5,845	-
College contributions subsequent to the measurement date	<u>5,770,560</u>	<u>-</u>
Total	<u>\$ 8,197,919</u>	<u>\$ (7,814,393)</u>

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

Year Ending June 30	Amount
2016	\$ 473,761
2017	(1,953,598)
2018	(1,953,598)
2019	<u>(1,953,599)</u>
Total	<u>\$ (5,387,034)</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2016).

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions - The total pension liability in the September 30, 2013 actuarial valuation was determined using 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	3.50 percent
Mortality basis	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA

The actuarial assumptions used for the September 30, 2013 valuation 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. 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.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28%	4.8%
Private Equity Pools	18%	8.5%
International Equity Pools	16%	6.1%
Fixed-income Pools	10%	1.5%
Real Estate and Infrastructure Pools	10%	5.3%
Real Return, Opportunistic, and Absolute Pools	16%	6.3%
Short Term Investment Pools	2%	-0.2%
Total	100%	

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 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:

	1.00 percent decrease (7.00 percent)	Current Discount Rate (8.00 percent)	1.00 percent increase (9.00 percent)
Net Pension Liability	\$ 101,725,201	\$ 81,280,501	\$ 63,663,508

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan - At June 30, 2015, the University reported a payable of \$368,783 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

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. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay as you go basis. Participating employers are required to contribute at that rate. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403B account.

The University's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2015, 2014, and 2013 were \$4,040,537, \$3,618,087, and \$4,239,744, respectively.

Note 11 - Commitments and Contingencies

In the normal course of its activities, the University is a party in various legal and regulatory actions. The University believes that the outcome of these actions will not have a material effect on the financial statements.

Note 12 - Cash Flows

During the year ended June 30, 2014, the University had significant noncash investing and financing activities as a result of the capital lease receivable with WMed. This resulted in an increase in capital lease receivable of \$68,950,000, a reduction of capital assets of \$53,603,963 and a loss recognized on the capital lease of \$15,346,037. As a result of this transaction, an additional \$3,882,283 was recognized in 2015. The University also renewed its capital lease for the Grand Rapids building, resulting in an increase to capital assets and long-term obligations of \$10,217,817.

Note 13 - Upcoming Accounting Pronouncements

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. The statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. 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 financial statements for periods beginning after June 15, 2015.

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 proportionate share of the net OPEB liability related to its participation in the Michigan Public School Employees Retirement Plan (MPSERS). The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). 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 financial statements for periods beginning after June 15, 2017.

Required Supplemental Information

Western Michigan University

Required Supplemental Information

Schedule of Pension Funding Progress:

	2015
University's proportion of the University's collective MPSERS net pension liability:	
As a percentage	21.67%
Amount	\$ 81,280,501
University's covered-employee payroll	\$ 19,002,287
University's proportional share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	23.38%
MPSERS fiduciary net position as a percentage of the total pension liability	63.00%

Schedule of Contributions

	2015
Statutorily required contribution	\$ 7,007,529
Contributions in relation to the actuarially determined contractually required contribution	\$ 7,548,071
Contribution deficiency (excess)	\$ (540,542)
Covered employee payroll	\$ 19,002,237
Contributions as a percentage of covered employee payroll	39.72%